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Sida Evaluation

Carnegie Consult

Evaluation of Sida's use of guarantees for market development and poverty reduction

Evaluation report

Sida

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Carnegie Consult

Author: Carnegie Consult.

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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Foreword

In November 2015 Sida commissioned Carnegie Consult to carry out an evaluation of Sida's use of guarantees for market development and poverty reduction with the objective of deepening Sida's knowledge on the guarantee instrument. The evaluation team was led by Hans Slegtenhorst and included Mart Nugteren, Alwin de Haas, Rien Strootman, Marie Heydenreich, Paulo Luswata, Nino Serdarevic, Anders Grettve and Bart Schaap. We wish to express thanks to the evaluation team and gratitude to the time and interest invested by all individuals and officials who have participated in the evaluation. Their collected contribution to this evaluation is an important input to Sida's efforts to further develop its work with guarantees.

Overall the evaluation found that the guarantees of Sida are useful instruments that positively contribute to private sector development. In cases where financial intermediaries are not able to lend to clients because of the risks involved, guarantees have shown to be important instruments to bridge the risks and allow intermediaries to reach out to clients that could otherwise not be served.

The evaluation highlights the importance of Sida selecting suitable banks as well as introducing competition between banks by selecting multiple banks in a guarantee facility to increase utilization and efficiency of the guarantee. Introducing flexibility in terms of guarantee percentages would also help banks to reach out to target groups. While technical assistance for borrowers and banks is seen as a potentially powerful tool, Sida should ensure this is provided in a focused manner and well aligned with the partners in the facility.

Furthermore the evaluations concludes that even if monitoring of results is the responsibility of the financial institutions banks should not be overwhelmed with monitoring of development impact beyond financial indicators. To enhance transparency and ease of monitoring, the evaluators recommend that for portfolio guarantees borrowers should be made aware of the existence of the guarantee, which is not always the case for reasons of moral hazard.

The evaluation also brings attention the importance of regular discussions and training between the Operational Departments of Sida and the Unit for Loans and Guarantees for a better use of the guarantee instrument and successful origination of transactions.

Joakim Molander
Head of the Unit for Planning, Monitoring and Evaluation

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Head of the Unit for Loans and Guarantees

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Abbreviations and Acronyms

BiH	Bosnia Herzegovina
BPS	Basis points
CDFG	Community Development Finance Group
CFO	Corporate Financial Officer
CMA	Capital Market Authority
CMS	Credit Monitoring System
CMS	Credit Management System
CPP	Client Protection Principles
CRB	Credit Review Board
CRDB	Centenary Rural Development Bank
DCA	Development Credit Authority
DEG	The Deutsche Investitions – und. Entwicklungsgesells-chaft
DFI	Development Financial Institution
DFID	Department for International Development
EBRD	European Bank for Reconstruction and Development
ECA	Export Credit Agency
EGAT/DC	Office of Development Credit in the Bureau for Economic Growth, Agriculture, and Trade
EIB	European Investment Bank
EKN	Swedish National Export Credits Guarantee Board
FARMA	Fostering Agricultural Market Activity
FIRMA	Fostering Interventions for Rapid Market Advancement
FMO	The Netherlands Development Finance Company
GCMC	Global Commercial Microfinance Consortium
GIZ	German Technical Cooperation
KfW	Kreditanstalt für Wiederaufbau
L&G	Loans and Guarantees
M&E	Monitoring & Evaluation
MFI	Microfinance Institution

MNO	Mobile Network Operators
MoU	Memorandum of Understanding
MTN – (U)	Mobile telecommunication company Uganda
NDF	Non-Deliverable Forward
NGO	Non-Governmental Organisation
NPL	Non-Performing Loan
NSSF	National Social Security Fund
OECD/DAC	OECD Development Assistance Committee
OPIC	Overseas Private Investment Corporation
PFP	Private For Profit
PHS	Private Health Support
PNFP	Private Not For Profit
PPP	Public Private Partnership
SACCO	Savings And Credit Co-Operative
SME	Small and Medium Sized Enterprises
TA	Technical Assistance
TCMP	Traditional and Complimentary Medicine Practitioners
ToR	Terms of Reference
UGX	Uganda Shilling exchange
UHF	Uganda Healthcare Federation
UPTC	UgandaPosts and Telecommunications Corporation's
USAID	United States Agency for International Development
USAID/ DCA	USAID's Development Credit Authority
USE	Uganda Stock Exchange
VSLA	Village Savings and Loans Associations

Glossary of Terms Used

Additionality	Likelihood that the effects observed would not have emerged in the absence of the intervention
Asset base	The underlying assets giving value to a company
Basis points	One hundredth of one percentage point (used chiefly in expressing differences of interest rates)
Collateral	Collateral is a security pledged for the repayment of a loan
Commercial risk	The risk that a borrower will be unable to pay its debts because of business events, such as bankruptcy
Corporate bond, principal, coupon	A security representing the debt of the company issuing it. When a company or government issues a bond, it borrows money from the bondholders; it then uses the money to invest in its operations. In exchange, the bondholder receives the principal amount back on a maturity date. In addition, the bondholder usually has the right to receive coupons or payments on the bond's interest
Disbursements	The actual physical transfer of monetary funds
Effectiveness	The extent to which the direct objectives of the interventions have been fulfilled, or can be expected to be fulfilled
Efficiency	Relationship between inputs and outputs, in this case the extent to which the guarantee intervention – from an organisational point of view – was designed and implemented in a (cost-) efficient way
First loss position	The position in a security that will suffer the first economic loss if the underlying assets lose value or are foreclosed on. The first-loss position carries a higher risk and a higher yield
Impact	The total of all effects of an intervention, positive or negative, expected or unexpected, including effects beyond the direct objectivesof the guarantee

Internal rate of return (IRR)	The interest rate which equals, when discounting, positive and negative cashflows resulting from an investment over time. A metric measuring the profitability of potential investments.
Junior/ subordinated debt	Debt which ranks after other debts if a company falls into liquidation or bankruptcy
Leverage	The relationship between an initial financial injection and the total value of all monetary inputs which emerge as a result of the initial injection. The ratio of a company's loan capital (debt) to the value of its ordinary shares (equity)
Notes	A note is a debt security obligating repayment of a loan at a set interest rate in a defined time period
Origination fee	A fee charged by the guarantor on entering into a guarantee agreement to cover the cost of processing the guarantee
Relevance	In how far the intervention was a relevant response to address the market development problems in its specific context
Revocable guarantee	A guaranty that the guarantor may terminate without any other party's consent
Revolving bank guarantee	Revolving bank guarantees limit the overall credit to be allowed to a customer with a validity period. The credit gets released once the customer makes the payment and can be used for new sales again
Senior debt	Debt that takes priority over other unsecured or otherwise more junior Debt owed by the issuer
Smart Campaign Client Protection Principles	Minimum standards that clients should expect to receive when doing business with a microfinance institution
Sustainability	How likely is it that positive results especially in terms of financial market strengthening will be sustained over time?
Tier-1 MFIs	Mature, financially sustainable, and large MFIs that are highly transparent
Utilisation fee	A fee based on the actual amount of funds drawn under the guarantee, payable to the guarantor
Yield	The income return on an investment

Preface

Sida commissioned Carnegie Consult to carry out an evaluation of 'Sida's use of guarantees for market development and poverty reduction' on the basis of four specific guarantee interventions in November 2015. The evaluation was carried out between November 2015 – June 2016 including three field visits to Uganda, Bosnia – Herzegovina and New York during March – April 2016. The evaluation report was finalized in June 2016 after feedback from Sida and the reference group.

The following experts were involved in the assignment: Hans Slegtenhorst (team leader), Mart Nugteren, Alwin de Haas, Rien Strootman, Marie Heydenreich, Paulo Luswata, Nino Serdarevic, Anders Grettve and Bart Schaap.

We are grateful for the full support of Sofia Ericsson as the Sida-manager of this evaluationa, as well as the support of all resourced staff at the loans and guarantees team at Sida. Anders Berlin and Camilla Rubensson from the Unit for Loans and Guarantees of Sida and Sofia Ericsson from the Unit for Planning, Monitoring and Evaluation joined two field missions as observers. Kalle Hellman, Anders Berlin and Sofia Ericsson also took part in different workshops during the evaluation together with the full evaluation team to discuss and challenge preliminary findings. Their remarks and positive criticism on earlier versions of this report were of great value to the final product.

Staff of USAID, partner of Sida in several interventions, were also very forthcoming in sharing information and facilitating access. Likewise the other partner organisations cooperated well, and this report would not have been possible without their cooperation.

Executive Summary

THE EVALUATION

In November 2015 Sida commissioned Carnegie Consult to carry out an evaluation of 'Sida's use of guarantees to promote market development and poverty reduction'. Since the 4th High Level forum on Aid Effectiveness in Busan in 2011 donors (inclu-ding the government of Sweden) considered the private sector an important driver for economic growth, job creation and ultimately poverty reduction. For developing the private sector different financial instruments are required which ideally conform to the market circumstances and avoid market distortion. The guarantee instrument of Sida introduced in the late nineties is an example of this new innovative form of development cooperation.

The objective of this evaluation was to deepen Sida's knowledge on the guarantee instrument and to draw lessons of broader relevance from a limited number of interventions, rather than accountability. During the course of the evaluation it was therefore decided to involve Sida as a close observer in the evaluation without compromising the independence of the exercise. Representatives of Sida participated in the field visits and in workshops to discuss the observations and findings. Moreover the findings of the draft report were presented, challenged and discussed in Stockholm both with the steering committee for this evaluation as well as with the staff of the loan and guarantees team.

Sida selected the following four interventions for the evaluation:

- Deutsche Bank, Commercial Microfinance Consortium II, (Global)
- Raiffeisen/USAID (Bosnia-Herzegovina)
- Centenary Bank for Rural Development/USAID Health Guarantee (Uganda)
- MTN Mobile Coverage (Uganda)

Two interventions concerned portfolio guarantees in Uganda and Bosnia-Herzegovina facilitating lending to Small and Medium

Enterprises (SMEs), in Uganda to SMEs and micro-entrepreneurs in the private health sector. The objectives of the other twoselected interventions were primarily to develop financial markets and creating leverage through attracting commercial investors. The corporate bond guarantee to MTN was issued to allow a new telecom operator in Uganda to roll out its operations in rural areas in a faster manner, whereas the Deutsche Bank guarantee intended to attract institutional investors for investing in the microfinance sector in developing economies. For the four intervention studies the evaluation team assessed the following evaluation criteria: relevance, efficiency, effectiveness and to a limited extent impact and sustainability. Moreover additionality was addressed, i.e. the likeliness that effects observed would also not have emerged in the absence of the intervention. The resulting synthesis report covered the main questions from the terms of reference for the evaluation.

- When to use, or not to use, the guarantee instrument?
- What to consider when designing and managing guarantees to maximize pro-poor market development impact?
- How to avoid market distortion?
- How to monitor and evaluate guarantee interventions, including assessing additionality?

MAIN FINDINGS

Based on the four interventions the use of the guarantee instrument was found generally relevant and efficient. The interventions were well aligned with the Swedish development policy, country strategies and priorities and were executed in an efficient manner.

In the two portfolio guarantees, Sida co-operated with the US donor agency USAID, who managed the guarantees as agent of Sida. USAID appeared to have good systems in place to monitor the portfolios in a professional and efficient manner. The advantage of this cooperation for Sida is that it reduces the pressure on the own organization while ensuring professional management of the facilities. A disadvantage is that Sida is less involved in the day-to-day follow-up activities and therefore lacks direct control. The selection of partner banks providing the loans to SMEs was found to be critical for the success of portfolio guarantees.

The other two interventions studied were also assessed positively in terms of relevance and efficiency. The intervention of Sida with the telecom operator in Uganda was innovative in that it introduced a new financial instrument to the Ugandan capital market with the aim of attracting long term funding from local institutional investors. The other intervention targeted at involving institutional investors in microfinance was innovative as well as it allowed to create a fund structure with different layers of risk.

Sida charges a fee for the use of the guarantee instrument to its partners, which is meant to cover its own risk. Presently three players are involved in calculating the fee and assessing the risks: the Swedish Export Credit Board (EKN), the National Debt Office and Sida. Normally Sida subsidizes the premium calculated by EKN which results in a lower fee. USAID, involved in the portfolio guarantees, has its own risk assessment and fee calculation system. The resulting overall pricing system lacks consistency and transparency, which could be improved through clear guidelines and responsibilities.

In none of the interventions so far a claim has been issued as a result of a default. This is beneficial for efficiency and it creates opportunities for re-using the repaid funds for other interventions. At the same time it raises doubts on whether the risks guaranteed warranted a guarantee in all cases, which is a matter of additionality.

Additionality was assessed at two levels: (1) was the intervention additional in developing financial markets?; and (2) was the intervention additional in terms of reaching out to the ultimate target group (SMEs, microfinance institutions)? The interventions in Uganda were largely additional, at both levels. Market distortion was not observed, although the guarantee agreements in the case of the portfolio guarantees had been drawn up with single individual banks. In the Ugandan case the portfolio guarantee was crucial to facilitating larger lending amounts and longer terms for customers. However in the Bosnian case most of the SME lending could also have been provided without a guarantee by the partner bank or by other commercial banks in the country. The latter was the only non-additional intervention in the sample. In case of the microfinance intervention the additionality was greater for the set-up of the financial instrument and the development of the financial market than for the beneficiary level. The liquidity in the market – in particular for well-established microfinance institutes – seemed sufficient at the time.

Technical Assistance appeared to be most useful where it had a clear purpose and target group connected to the guarantee like in the case of the microfinance intervention. The two portfolio guarantees were loosely aligned with existing Technical Assistance schemes co-financed by Sida. The evaluation could not observe any direct effects of this linkage, in one case the effects of this assistance were insignificant.

The evaluation was not in a position, nor was it meant to be, to go in detail on the impact of the interventions. Here only secondary information was gathered, which generally points to a positive impact on employment and supply of relevant services to the population in the beneficiary countries. This impact was mostly indirect. Expanding a telecom network to rural areas in Uganda supported economic development for micro-entrepreneurs and SMEs and contributed to employment. The same counts for the effects of the two portfolio guarantees on SMEs and SMEs in the health sector. The private health sector intervention in Uganda showed that many borrowers were small local clinics with a large number of customers that can be classified as poor.

Overall the evaluation found that the guarantees of Sida are useful instruments that positively contribute to private sector development. Guarantees in most cases serve viable enterprises or projects, and use resources in an efficient and catalyzing manner.

Interventions aimed at developing local financial markets and attracting and levering a different type of investors are important innovative attributions to financial sector development. In cases where financial intermediaries are not able to lend to clients because of the risks involved, guarantees have shown to be important instruments to bridge the risks and allow intermediaries to reach out to clients that could otherwise not be served. The guarantee instrument appears to be however less useful in times of recessions and in circumstances where financial intermediaries face large liquidity problems. It is a necessary but not a sufficient instrument to bring about private sector development.

RECOMMENDATIONS

The evaluation came to the following recommendations to improve the performance of Sida's use of guarantee instruments.

- Suitable financial intermediaries and counterparts should be selected as partners, which have the potential to reach out to the focus groups of Sida. These intermediaries should be able to cover regions (rural, peripheral) where the target group is predominantly present.

- Selecting multiple banks for implementing portfolio guarantees will introduce competition on the use of the guarantee and will safeguard additionality and better use of the facility. By introducing incentives (guarantee ceilings, varying the cover percentage of the guarantee) banks will be encouraged to improve their performance.
- Incentives could be provided for reaching out to specific borrowers or clients. Introducing a flexible guarantee percentage for specific customers or borrowers could help to reach out to higher risk clients, for example 60-80% for start-ups or innovative entrepreneurs while 50% or less would suffice for established companies.
- The guarantees should serve as an additional security in cases where borrowers lack sufficient collateral or where the financial track record is not fully proven. With respect to the portfolio guarantees it is important to make sure that at the time of contracting the executing banks treat the guarantee as first class collateral and that regulators allow that approach.
- Technical Assistance for borrowers and financial intermediaries is a potentially powerful tool to assist borrowers in becoming bankable which would facilitate the reach out to poorer clients. However this assistance should be made available in a focused manner and be well aligned with the financial intermediaries implementing the facility.
- In principle banks and financial intermediaries prefer unconditional guarantees otherwise the use of the facility may be undermined. It is recommended to minimize conditions where possible.
- For innovative guarantees with the objective to develop (local) financial markets or reach out to new funding sources it is important to make sure that these new funding structures are also additional in terms of their effect on the final target group. The microfinance industry has developed into a mature market with a high liquidity and competitive local and international funding sources. Setting up a new microfinance fund for investors that are unfamiliar with these markets may be additional from the perspective of these investors, but does not contribute to additional funding in the market unless it serves microfinance institutes with

a high risk rating or provides financing instruments with a high risk character (e.g. equity or subordinated debt).

- A market oriented fee should be calculated for the guarantees. This fee may be subsidized, but it should be ensured that the subsidy is in the benefit of the ultimate beneficiaries, not the intermediaries implementing the facility. The subsidy should be made explicit, i.e. as the bridge between the market oriented fee and the fee affordable for the ultimate borrowers.
- For portfolio guarantees it is recommended that borrowers are made aware of the existence of the guarantee and are charged a transparent fee. In some countries this recommendation is not easy to implement as many people and institutions consider interventions of donors free money, which can cause problems of moral hazard. Even more a reason to change this image of donors and treat the private sector in a more market oriented manner.
- When continuing with the guarantee instrument, an adequate monitoring and risk management framework should be developed within Sida that provides timely information on the use and performance of guarantees. In case of the portfolio guarantees, Sida is at present dependent on the systems and management capacity of USAID. These systems are generally appropriate, but ownership by Sida for these interventions could be improved by a better assessment of the circumstances of the intervention at the start and during the course of the evaluation. In the event that Sida implements portfolio guarantees without USAID, the introduction of a monitoring system comparable to the one used by USAID is required. The cooperation between the strategy owner and the Unit for Loans and Guarantees should be strengthened and the local staff of Sida should be more involved in the follow-up.

1 Introduction

1.1 BACKGROUND

The guarantee activities of Sida are meant to serve the interest of poor people and to promote the development of financial markets in developing countries. Sida's goal is to contribute to the creation of more inclusive, transparent and effective markets that can provide access to jobs, products and financial services. The budget bill for 2015 states that in an ever more complex aid environment there is a need for continuous development of cooperation mechanisms and financing solutions. The guarantee scheme introduced in the late '90s plays an important role in achieving these two specific objectives: private sector and financial sector development. This report represents the first comprehensive evaluation of Sida's guarantee programmes since the beginning of its activities in 1990s.

1.2 PURPOSE OF THE EVALUATION

The overall objective of this learning-based evaluation was to deepen Sida's knowledge about the guarantee instrument as a tool for market development and poverty reduction. We have for this purpose studied four interventions supported by Sida specifically, which all aim at systemic market development:

- Deutsche Bank, Commercial Microfinance Consortium II, (Global)
- Raiffeisen/USAID (Bosnia-Herzegovina)
- Centenary Bank for Rural Development/USAID Health Guarantee (Uganda)
- MTN Mobile Coverage (Uganda)

With an in-depth understanding of how the instruments work in their specific context, the evaluation has come to conclusions and recommendations that can serve as input for formulating a broader policy on the selection, design and management of guarantees. These lessons will also be used to build competences around guarantees and for Sida's Unit for Loans and Guarantees (in the

Department for Partnerships and Innovations) to develop tools to improve evaluation and monitoring of guarantees.

The report is structured as follows. Chapter 2 outlines the main questions to be answered by the evaluation as well as the underlying methodology and approach including risks and limitations. Chapter 3 briefly summarises the findings of the four intervention studies and chapter 4 draws general conclusions and lessons learned. In chapter 5 we turn to the recommendations resulting from this evaluation, which are grouped under the main evaluation questions. The Terms of Reference (ToR) for this assignment as well as the four intervention reports and a list of stakeholders interviewed are included as annexes to this report.

2 Methodology and Approach

2.1 INTRODUCTION

With a view on the learning purpose of the evaluation the terms of reference mentioned four main questions to be answered during the evaluation.

- When to use, or not to use, the guarantee instrument?
- What to consider when designing and managing guarantees to maximise pro-poor market development impact?
- How to avoid market distortion?
- How to monitor and evaluate guarantee interventions, including assessing additionality?

Other questions were added during the kick-off meeting in December 2015 and during the workshop in May 2016. These additional questions, in our understanding, were meant to deepen the learning on whether or not the guarantee instrument has worked, and why or why not it has worked under specific circumstances. We have grouped these additional questions under the four main questions mentioned above.

To answer the evaluation questions we carried out four separate evaluations of the different interventions, each with their own evaluation framework, however ensuring consistency across the different approaches through triangulation and internal quality control. The evaluation criteria addressed when evaluating the four interventions entailed the OECD/DAC criteria of relevance, efficiency, effectiveness and (but only to a limited extent) impact and sustainability. We refer to Sida's Glossary of Key Terms in Evaluation and Results Based Management for definitions of these criteria. Given the timing of the evaluation and the limited time in the field we focussed on the direct and immediate effects and less so on the effects on impact level. Nevertheless, we have – where possible – indicated whether or not performance of the guarantee instrument was likely to have impact and was sustainable.

We also evaluated the additionality of the guarantee instruments. The Donor Committee for Enterprise Development (DCED) defines additionality as "the extent to which activities (and associated results) are larger in scale, at a higher quality, take place quicker, take place at a different location, or take place at all as a result of a donor intervention”.[1]

In other words how likely is it that the effects observed would not have emerged in the absence of the intervention. Additionality is often a sensitive criterion in programmes focusing on the private sector, it is therefore important to ensure that there is a common understanding of the issue. If e.g. loans provided under a guarantee agreement would not have been provided at all without the guarantee, the loans are an additional element of the guarantee instrument. If the guarantee enables a loan with a longer maturity, this longer maturity represents an additional element. Whether the ensuing effects of the loan (turnover, employment) are additional elements depends on whether or not the borrower critically needed the loan or could not have obtained the loan from other sources. Additionality clearly borders on relevance, e.g. providing guarantees where they are not necessary is neither additional nor relevant, but relevance involves more aspects. The DCED also underlines that ‘although additionality cannot be proven or exactly measured, it is possible to enhance assessments in practical ways – to make an informed and credible judgement on additionality...’

2.2 METHODOLOGY

We used a mixed methods approach for the evaluation consisting of analysis of financial data, key informant and focal group interviews, and document review.

During the inception phase we designed a customized framework for each guarantee intervention in line with its reconstructed theory of change, and developed suitable indicators to account for unique guarantee objectives and context. We also researched the set-up of the guarantee facilities and the process leading up to the decision through document review and interviews with Sida staff, USAID and partner financial institutions.

Elaborating on the results of the first document analysis, during the desk phase we reviewed relevant documents from Sida and potential partners on the use of the guarantees, lending volumes, fee income and claims; characteristics of the portfolio of guaranteed loans; investor structure and profile; financial performance of

[1] Demonstrating Additionality i n Private Sector Development Initiatives, Melina Heinrich, DCED, April 2014

investments or portfolio; and the cost-structure of the guarantees. In the case of the portfolio guarantees most of this information was obtained from the credit monitoring system (CMS) of USAID which was made available to the evaluation team. The CMS system was also used to select a sample of borrowers for in-depth studies.

In addition to the desk study, a context analysis was carried out for the different interventions which helped to put the findings into the specific local, historical and socio-economic context.

Three field missions took place to Uganda, Bosnia-Herzegovina and New York, to conduct semi-structured interviews with the partner staff, the Swedish Embassy, the USAID Mission, government representatives and the Central Bank, as well as other financial and relevant sector experts, including other lenders. A list of interviewees can be found in Annex 6 of this report. The evaluation team also collected additional documents from interviewees, as well as lending data from the partner financial institutions. Borrowers of the portfolio guarantees were approached either through one-on-one or focus group interviews. For confidentiality reasons we have however not included the names of the borrowers in this report or in the intervention reports.

For the missions to Bosnia-Herzegovina and Uganda, the evaluation team was accompanied by staff of the unit for loans and guarantees as well as the unit for planning, monitoring and evaluation of Sida, which contributed to the learning character of this evaluation.

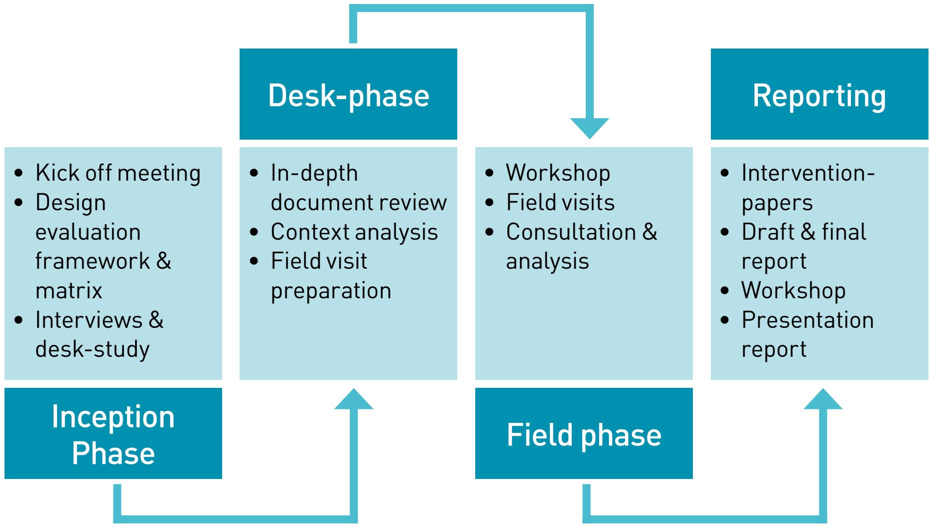
Inception Phase
Kick off meeting
Design evaluation framework & matrix
Interviews & desk-study
Desk-phase
In-depth document review
Context analysis
Field visit preparation
Field phase
Workshop
Field visits
Consultation & analysis
Reporting
Intervention-papers
Draft & final report
Workshop
Presentation report

Figure 1

The findings from the field studies were discussed and challenged among the team members throughout the field phase, and triangulated with the findings of the previous phase. Together, these findings were laid down in an intervention paper, which was sent to the reference group at the end of the field phase. The intervention papers describe the context of the intervention, the reconstructed theory of change and our findings and conclusions in line with the OECD/DAC evaluation criteria and the specific evaluation questions.

The last phase of the assignment was dedicated to the final analysis and triangulation of the data as well as a synthesis of findings generated throughout the evaluation which allowed for lessons learning from the four interventions. In the beginning of the reporting phase, the team organised a workshop in the Netherlands together with Sida staff to filter out the main conclusions from the interventions and draw relevant lessons learned for the final report. The draft final report was discussed with the reference group in the form of a workshop to identify needs for elaboration and/or additional data analysis for the final reporting phase. Next to the workshop, the reference group and other stakeholders including lenders had the possibility to comment on the report by mail.

2.3 PROBLEMS AND LIMITATIONS MET

The following hurdles materialised during the evaluation:

Limitation	Applicability and mitigation
Lack of willingness of partners to cooperate (MTN)	Despite multiple attempts we were not able to arrange a meeting with the former corporate financial officer (CFO) of MTN, nor could MTN put us in contact with local branches and agents in the areas where MTN was to expand to. We were therefore not able to assess any impact in terms of access to telecom services locally and we were bound to information provided by stakeholders not directly involved in the intervention.
Lack of willingness of banks to share confidential information on their borrowers (or other stakeholders)	In one case the bank involved was not willing to introduce us to clients who had repaid the loan. In another case branches involved in providing telecom services to rural consumers in Uganda could not be contacted.

Limitation	Applicability and mitigation
Borrowers or declined borrowers are not willing to cooperate	Not applicable for clients, however rejected potential clients could not be sourced.
Inability to mention guarantee to borrowers	In Bosnia-Herzegovina and in Uganda evaluators could not mention the guarantee to the clients visited, which resulted in somewhat indirect discussions on the topic of the evaluation.
Quantitative approach of assessing additionality might be hard to implement as the financial intermediaries have different reporting and rating standards	The banks who benefitted from portfolio guarantees used different systems of risk rating and were not willing to allow access to data on the entire clients' portfolio. This was mitigated by using different methods, e.g. comparing the profile of the borrowers of guaranteed products with profiles derived from national statistics, or triangulation with information achieved from other stakeholders.
Challenges to retrieve baseline portfolio data	This occurred in two interventions studied, once since the bank involved does not stratify loans, which was partly mitigated through access to CMS.
Impact assessment limited	Sometimes employment data and some gender data could be retrieved, but household surveys could not be done. In one case information on microcredit clients could only be retrieved through secondary sources (reports) and telephone interviews with microfinance institutions (MFIs). Furthermore, monitoring reports that MTN was contractually obliged to provide to Sida could not be retrieved in Sida's archives.
Small sample of borrowers	Generally samples were small, because of logistic problems mainly and in one case (see above) limitations imposed by the bank.
Balance sheet and profit and loss data of borrowers not available	Audited or any accounts were not available in Uganda especially for the smaller enterprises.
Administration of guarantees not fully up to date	Applicable in Uganda where more time therefore had to be spent in branches and in the headquarters of the bank.

3 Findings of the evaluation

3.1 INTRODUCTION

In this chapter we present the main findings of the four intervention studies.

The interventions represent different approaches for the use of the guarantee instrument. Two interventions are portfolio guarantees facilitating lending to small and medium sized enterprises (SMEs), in one case restricted to SMEs active in the health sector. Another intervention is meant to guarantee bonds issued by a single enterprise delivering telecommunication services and finally one intervention guaranteed part of the subordinated (and most risky) tranche of an investment by a bank into a debt fund for microfinance institutions. Between the two portfolio guarantees there are similarities in the approach and the last two interventions could be seen as instruments attracting wider investment in a single venture, be it that these ventures are of a completely different nature.

The heterogeneous character of the interventions allowed for a broad and representative view of the use of the guarantee instrument by Sida. At the same time, it presented a challenge for arriving at commonly applicable conclusions and recommendations. We have nevertheless tried to do the latter, by pointing in the presentation of the findings of the four different interventions at common issues and not be distracted by details.

3.2 MAIN FINDINGS PER INTERVENTION

3.2.1 MTN Uganda

The corporate bond guarantee for MTN Uganda (MTN-U) was the first activity in the pilot phase of Sida's independent use of guarantees. Negotiations started in 1998 and the agreement between MTN and Sida was signed in June 2001. The purpose of the guarantee was to incentivise local (institutional) investors like pension funds to provide long-term local currency debt in form of a bond to MTN-U, to finance a faster expansion of the telephone network to 24 rural communities in Uganda. The bond should be listed on the Uganda stock exchange, which would make it tradeable and increase the liquidity of the financial market. In 1998 the telecommunication sector in Uganda was still in its infancy and MTN-U was a new company with an ambitious, bold strategy to bring telephony to rural areas at a large scale and at low costs.

The guarantee covered 100% of the principal amount of the bonds up to a maximum amount equivalent to SEK 80 million. In case the expansion would not be successful and MTN would not be able to repay its debt, Sida would repay investors so investors only carried the risk of the coupon rate (the interest payment on the bond). Political risk, force majeure, fraud etc. were excluded from coverage. Sida charged MTN-U a guarantee fee of 3% annually, which was based on an assessment done by the Swedish Export Credit Board EKN. The National Debt Office created a reserve of SEK 40 million to cover for potential losses.

There were three main ways for MTN-U to finance its expansion at the time, via own resources, via the banking sector or via the capital market. As the income of MTN-U was nominated mainly in local currency, MTN-U needed long-term local currency debt to avoid exchange rate risks. The banking sector on the other hand was risk averse and would not provide the required long-term financing to MTN-U. The capital market was underdeveloped and the stock exchange had seen very few listings, at the same time institutional investors were restricted in their investment possibilities and looked for alternative, however not too risky ways to deploy their funds.

The idea of issuing a corporate bond with a guarantee was relevant and innovative in Uganda. Risks in the telecom sector were still considered very high, but investors would be more inclined to lend money to MTN-U as they would be covered in the case of default.

Sida contributed strongly to the design process and was advised by professionals on the financial capacity of MTN, the feasibility of the project as well as the status of the financial market. The strategy of MTN-U to roll out large scale telecommunication services all over the country at affordable prices fitted both with the policy of the Ugandan Government (liberalization of the telecom market) as well as the policy of Sida to strengthen the financial market and reaching out to poor rural areas. The risk of market distortion was limited as the only main competitor used a different business model based on foreign currency income.

The relevance and additionality of the intervention were only lessened by the fact that the identified villages were included in MTN's licence anyhow, and should be covered within the first five years of the licence according to the agreement.

The guarantee therefore only served to speed up and not to create the expansion.

In terms of effectiveness, impact and sustainability the intervention showed mixed results. It did result in a faster expansion of the network to 24 rural areas and contributed to developing the financial market in Uganda through the first ever corporate bond issue. In total three four-years bonds were issued for a total of an equivalent of SEK 57.1 million, which was less than the original target of SEK 80 million. Sida's involvement was crucial for making the bond issuance possible and for allowing MTN to attract local financing and avoid large currency risks, which is clearly additional.

The bonds were however not listed on the stock exchange as intended and also did not lead to a follow up of other bond issues by MTN or other local companies. The longer term goals of financial market development were therefore not reached. While the MTN corporate bond guarantee is seen by the Ugandan financial market authorities as an example for other corporates wanting to attract local currency financing, the bond market and stock exchange are at present still underdeveloped. The main reasons for this are that there are a limited number of sizable corporates in Uganda that are able to consider the capital market as an alternative funding source and the high formal requirements and costs involved in issuing bonds and getting listed on the Uganda stock exchange.

The telecom-sector in Uganda flourished after the intervention and costs reduced dramatically with a positive impact on poor people, although this is more due to the overall strategy of MTN-U than to the guarantee provided by Sida.

The efficiency of the intervention was generally high although the process for approval was a bit lengthy, which was mainly caused by the lack of clear rules and policy guidelines at the start of the pilot phase and the very innovative character of the financial instrument. The guarantee allowed MTN-U to attract local funding at reasonable conditions and the deal turned out to be successful for Sida and investors as MTN-U repaid all its debt on time.

3.2.2 Raiffeisen Bank Bosnia-Herzegovina

The guarantee facility with Raiffeisen bank concerned a portfolio guarantee for lending to SMEs in Bosnia-Herzegovina. The guarantee agreement was signed between the bank, Sida and USAID on 28 September 2010 and is valid till 30 September 2020, whereas the final date for placing qualifying loans was 30 March 2016. Sida and USAID guarantee each 25% of qualifying loans. Maximum cumulative value of disbursements of all qualifying loans was USD 20 million, a ceiling which was later lowered to USD 10 million. The maximum amount of a qualifying loan is USD 1,500,000, maximum maturity of the loans is seven years. Preference was to be given to borrowers active in the agriculture, tourism, wood processing, or metal working sectors. Finally, Raiffeisen is supposed to use its best efforts to cooperate with the USAID and Sida financed Technical Assistance (TA) programmes FARMA and FIRMA and to consider proposals recommended for financing by these projects. These proposals were however not binding for Raiffeisen in any way. USAID acted as agent to the bank also on behalf of Sida.

Both the selection of a guarantee instrument and the selection of USAID as partner appeared relevant at the start of the intervention. However, efficiency, effectiveness and impact of the guarantee instrument were negatively influenced by the limited deployment of the guarantee instrument by Raiffeisen bank. At the start of the instrument the demand for investment finance by the SME sector was reportedly low, caused by the financial crisis which also hit Bosnia-Herzegovina, but take-up of the facility was also lower than in some other banks USAID and Sida worked with. With a gradual improvement of economic conditions (2013 and later) the use of the guarantee instrument increased, but ultimately it reached out to merely 50% of the expected number of borrowers (23, representing 25 loans), and helped lending out 37% (USD 7.4 million) of the originally expected USD 20 million.

The main reason for the low utilisation was the conservative approach by Raiffeisen to the instrument. It treated the guarantee merely as a comfort factor, not as first class collateral. Lending to the SME sector is (still) not a core activity of the bank. The reverse side of the conservative approach was that so far no claims on the facility were made.

The loans were used, as intended, for productive purposes. Improvement of profitability was not evident (quite the opposite, but this may have been a short-term effect), but overall clients visited operated a sustainable business. In terms of impact a small increase in employment and spill-over effects to suppliers in the value chain were observed. Negative effects were virtually absent. Effectiveness in terms of increased SME lending by Raiffeisen and through a demonstration effect also by other banks was small, although the clients who received the loans mentioned that the fact alone that Raiffeisen had provided credit made it easier to attract finance from other banks.

Additionality is doubtful. The guarantee may have induced Raiffeisen to provide finance to some clients at a longer maturity, but virtually all clients were existing clients with a loan history. In addition, a major part of these clients could have financed their needs through other banks or other sources of finance. Effectiveness and impact were therefore only to a limited extent attributable to the guarantee instrument.

The effect of Technical Assistance through FIRMA and FARMA was not visible, FIRMA and FARMA were virtually unknown to the bank.

3.2.3 Centenary Rural Development Bank Uganda

The guarantee with the Centenary Rural Development Bank (CRDB) in Uganda was set-up as a loan portfolio guarantee covering loans to privately-owned and operated micro, small, and medium enterprises as well as healthcare workers in the health value chain. The total cover is 60% of the principal amount of the loans, of which Sida and USAID each guarantee 30%. If a guaranteed client fails to pay back its loan, CRDB therefore would only lose 40% of the due loan amount. The joint guarantee covers loans up to a cumulative value of the UGX equivalent of USD 3 million over a total duration of seven years, from September 2012 up to September 2019. 30% of the guaranteed portfolio is restricted to lending outside of the Central Region and one borrower cannot exceed the UGX equivalent of USD 300,000 for all guaranteed loans. CRDB had to pay an origination fee of 1% to Sida and an utilization fee of 0.75 % per annum to USAID.

Technical Assistance was not included in the agreement, it was noted however that the success of the guarantee would hinge on the activities of existing TA programmes of USAID to borrowers in the field of business plan development and financial literacy (through the

Private Health Support – PHS programme). USAID was assigned the role of agent for both guarantors, responsible for handling all communication with CRDB including obtaining reports as well as monitoring utilization and managing the claims process in case of defaults.

The main goal of the intervention for Sida was to promote access to private healthcare in (rural areas) in Uganda. This goal is very relevant in the Ugandan context and aligned with the country strategy of Sida and with the national government of Uganda (privatization of the health sector). The set-up of the guarantee, 60% cover and a focus on rural areas, is also considered adequate to achieve higher lending to the target group from an ex-ante perspective. Companies in Uganda, also in the health sector, very often lack hard collateral to successfully apply for a loan. As banks are very conservative and want to be fully covered for a potential loss, borrowers can therefore only receive very small loan amounts and short tenors. The expectation was that the guarantee would increase the vale of the collateral for those clients by 60%, enabling them to receive larger loans from the bank.

The selection of CRDB as the implementing financial institution was a relevant choice, as it has a history as a microfinance organisation with a high representation in rural areas and a focus on the lower segments of the SME sector. Unfortunately, CRDB does not face any competition in using the guarantee which would stimulate it to use it in a more proactive manner.

Appointing USAID as the agent of the facility was a good choice from an efficiency point of view as it reduces the pressure on the local internal capacity of Sida and allows Sida to reach more clients by increasing the maximum guarantee amount. A disadvantage of this approach is that Sida is less involved in the operations and does not participate in discussing problems that may arise. Monitoring responsibilities and ownership of the guarantee were not always clearly divided between the Unit for loans and guarantees in Stockholm and the Swedish Embassy in Kampala.

CRDB was successful in implementing the guarantee during the evalution period. The guarantee is smoothly integrated into the credit approval process of CRDB overall and Centenary branches are able to approve loans within two to five days. By May 2016, 3.5 years after the start of the intervention, 63.6% of the available guarantee volume had been used. A total of 109 loans to 79 unique borrowers have been extended under the guarantee with an average loan amount of equivalent to USD 15,000. No claims were made to date.

Fourteen percent of the guaranteed loans were extended to first time borrowers, 30% to borrowers outside the Central region, and 8% to women owned businesses. In particular existing borrowers benefitted from the guarantee by enabling them to obtain larger and longer term loans (from 12 to 24 months), and to expand their business and their assets. In this way the guarantee was clearly additional. The presumed advantage of the guarantee (60% extra collateral) however did not fully materialize.

An extensive impact measurement was not possible in the scope of this evaluation. The field visits revealed that borrowers were able to expand their operations by financing the expansion of construction of clinics and facilities and buying better equipment that improved the efficiency of their operations. This contributes to a higher quality and greater coverage of private healthcare in Uganda.

By enabling beneficiaries to improve their financial history with the bank and increase their asset base faster than without the guarantee the intervention had a positive, sustainable effect on the borrowing capacity of beneficiaries. In future loan applications they can present more assets as collateral, which will enable them to receive higher loan amounts and larger tenors. On the side of the bank, there is no indication yet that the guarantee changed the longer-term risk perception and lending policy of CRDB towards health sector borrowers however. Neither is their an indication that other banks followed CRDB's example and ventured into the health sector.

The combination of providing a guarantee and technical assistance (for both CRDB as well as borrowers) is relevant. The effects of the TA were not witnessed during the field visit however. A better co-ordination between Sida/USAID, CRDB and the consultants providing the TA could have been beneficial here.

There were some concerns about providing support to the private healthcare sector, mainly due to the lack of supervision and potential crowding out of public healthcare services. While no evidence was found to support the crowding out hypothesis and the intervention is overall relevant, the strategy owner and the Unit for loans and guarantees could have cooperated better to address these issues when the guarantee was designed and approved. This would have increased ownership within the organization.

3.2.4 Global Commercial Microfinance Consortium II

After the success of the first Global Commercial Microfinance Consortium (GCMC), Deutsche Bank created a new fund, funded in a layered structure through debt coming from different investors with different risk profiles. In this 'layered structure' the less risky lenders enjoying priority for repayment, covered 80% of the capital input while the more risky lenders covered 20%. Deutsche Bank provided a high risk loan amounting to USD 3 million, of which Sida, through a 50% guarantee, shared the risk. The guarantee agreement between GCMC II and Sida was signed in 2012. Sida was offered, but declined a seat in the advisory board. The duration of the fund is seven years.

The purpose of GCMC II is to target microfinance institutions (MFIs) that adhere to high standards of customer protection and customer service. In addition MFI clients should balance their social motivations with reasonably strong financial performance and sustainability. Finally, it searches for MFIs that have already, or will endorse the Smart Campaign's Client Protection Principles and search for certification in the (near) future. GCMC II also provides loans directly to Social Enterprises, at a maximum of 15% of the total fund size at a certain point in time. Loans may be provided in local currency. GCMC II is exclusively a lender, it does not take equity positions.

The layered funding structure, the exclusive lending to MFIs and the possibility to lend directly to social enterprises set GCMC II apart from other MFI funds.

Despite the layered structure and the important high risk position of Deutsche Bank, in practice it was a challenge to convince commercial investors to participate with larger amounts in GCMC II. The involvement of Development Finance Institutes (DFIs) such as KfW and OPIC turned out to be crucial for a successful launch. While there were 21 investors in GCMC II at the outset, the cumulative share of the uptake of Deutsche Bank, OPIC and KfW across the different tranches amounted to almost 50% at the launch of GCMC II.

GCMC II was able to identify 35 MFIs, which is more or less in line with the expectations. Of the USD 100 million capital USD 91 million was lent out. In total 7,264,380 borrowers are served by the MFI's that received a loan, 46% of these female borrowers. Although several attempts were made to lend to MFIs in Africa, the competition from DFIs and Non-governmental organisations (NGOs) offering local currency loans below market terms, was too strong. At the end of 2014, 83% of the portfolio of GCMC II consisted of senior loans to MFIs, 14% of subordinated loans to MFIs and 3% of loans to social enterprises.

GCMC II is currently half-way. At this point in time, returns are falling behind plan. In order to achieve planned returns, GCMC II needs to re-invest funds repaid by the MFIs. This will however become more and more difficult since the remaining lifetime of GCMC II is limited. So far, all loans were repaid.

According to respondents from Deutsche Bank, GCMC II would not have been launched if no guarantee had been provided. In this respect the Sida guarantee would be additional. The size of the loans to MFIs compared to their total debt was however limited (mostly below 6%). Most of the MFIs in the portfolio of GCMC II can be classified as Tier-1 MFIs, which already have a wide range of funding possibilities, as these MFIs are fully licensed and can attract deposits. This sheds some doubt on the additionality of GCMC II. The high risk (subordinated loans) to the MFIs as well as the lending to social enterprises, which together however represent merely 17%, can be considered an addition to the financing options open for such ventures.

Within Deutsche Bank, a demonstration effect was present, as new funds were set up, and currently a fund is being set up which is not guaranteed.

The pricing of the guarantee is not in line with the risk profile and expected return on the subordinated notes. The premium calculated by EKN amounted to 300 basis point (bps) per annum. The premium was furthermore subsidised by Sida with 150 bps. This subsidy however directly benefited Deutsche Bank, and (if at all) only indirectly influenced the rates GCMC II charges to its clients. The subsidy appeared not to be necessary and even the 300 bps is low in light of the 800 bps return expectation on the subordinated notes.

3.3 FINDINGS PER EVALUATION CRITERION

The following table presents a summary of the findings grouped per OECD/DAC criterion:

Criterion	Summary findings
Relevance	+ In line with Swedish development priorities, national policy & Sida country strategies + Innovative financial structures + Selection of USAID as agent was a good choice +/– Choice of financial institution appropriate in all but one case +/– TA could be more targeted
Efficiency	+ Generally efficient procedures + Partnering with USAID has efficiency advantages but comes with less ownership and control + No claims – In one case large under-utilisation of the guarantee instrument – Fees at the lower end – Monitoring responsibilities not clearly defined for L&G unit and strategy owner – Lack of suitable system for financial monitoring of overall risks
Effectiveness	+/– Except one case good utilization, however guarantee not always used as intended (as first class collateral) + Portfolio guarantee borrowers improve financial track record and asset base + Positive contribution to business performance of beneficiaries – Limited longer-term effect on bank behaviour (risk perception) – Limited effects of TA to banks and borrowers – Lack of data to measure improvement in portfolio
Additionality	+ Innovative financial structures + Sida's guarantee crucial for the launch of interventions in two cases, although the additionality of the resulting lending to other market players is less obvious – Motivation for applying guarantee not always clear, part of the effects would have occurred without the instrument – Lack of baseline data

Criterion	Summary findings	
Impact		Not possible to study impact effects in the scope of this evaluation. Any findings are only of indicative nature.
Sustainability	+	Financial sustainability outlook of instrument positive although still early to judge
	+	Portfolio guarantee borrowers improve financial track record and asset base for later borrowing
	–	Longer-term effects of guarantee on bank behaviour not yet visible

4 Conclusions and lessons learned

This is the point where the evaluation moves from scrutinizing four separate interventions to an integral assessment of the guarantee instrument, applied by Sida. In this chapter the focus is – as requested in the terms of reference – on lessons learned and less on accountability. We have therefore structured this chapter as per the four main evaluation questions (see section 2.1), focusing on reasons why or why not the instrument has worked under different circumstances. These conclusion should serve as a basis for the recommendations which is the subject of the next chapter.

4.1 USE OF THE INSTRUMENT

Generally this evaluation found the use of the instrument to be relevant, as the focus in all cases was on reaching out to poor people and rural areas. The same can be said about the intention to contribute to the development of the local financial-capital markets and the intermediaries involved.

The risk cover of the guarantee varied depending on the risk and purpose of the facility. In the Raiffeisen case the percentage was set at 50%, in Uganda for CRDB at 60% and in the case of MTN Uganda at 100%. In the latter the risk was limited to the commercial risk only while in the other cases no limitations were mentioned. Another important feature is the character of the guarantee. In the GCMC II-case the guarantee was irrevocable while in the other cases the contracts of Sida and USAID mentioned conditions for the guarantee.

Efficiency of the operation was overall good, in terms of procedures and administrative burden for the different parties. In one case the slow take-up of the guarantee instrument negatively influenced efficiency, but this was a single case.

In Bosnia-Herzegovina initially the utilisation was low, i.e. only four loans granted over the first two and a half years, but the use of the instrument improved with the general improvement of the economic situation. This appears logical: utilisation of the instrument presupposes a certain exogenous demand, driven by clients' expectations on turnover and profit (i.e. the simple existence of a guarantee does not push its use). This leads to the conclusion that the instrument is less useful in recessions, when the market provides no impetus to invest.

The extent of additionality varied between the interventions. In none of the two portfolio guarantees the bank treated the guarantee as high-quality 'first-class' collateral, which the bank can easily sell in case of default and which is equal in quality to e.g. assets like real estate or official land titles. The conditionality of the guarantees may have attributed to this prudent approach of the banks.

In the CRDB-intervention in Uganda the guarantee did allow for lower collateral, larger loans and longer maturities, which made it very additional. The profile of the guaranteed clients of Raiffeisen in Bosnia-Herzegovina on the other hand was even more credit worthy than that of average non-guaranteed borrowers in the country.

The guarantees for MTN-U and GCMC II proved to be additional for the financing structure and the introduction of an innovative instrument for borrowing from institutional investors through a bond issue. The authorities in Uganda still positively remember and appreciate Sida's credit enhancement efforts in this area. However looking at the reach-out to financial intermediaries, poor people and poor areas the additionality can be questioned. One could argue whether reaching out to primarily financially strong MFIs (so called Tier 1) was additional to other commercial funds active in that market. The establishment of telecom installation of MTN Uganda was speeded up in rural areas, not enabled, by the capital raised through the guaranteed bonds.

Summarising:With one exception, the implementation of the facility was overall additional. In all cases there is some extent of 'dead weight', i.e. some results which also would have been achieved in the absence of the guarantee. In this respect it is interesting to observe that in none of the interventions so far a claim has been issued on the guarantee. This might be good for efficiency (zero costs), but it also raises the question whether the risks guaranteed by the Sida facility really warranted a guarantee or whether the guarantee was used in the appropriate (and agreed) manner.

Partly responsible for this was the structure and flexibility of the portfolio guarantees. USAID and Sida set a maximum ceiling for loan disbursements for a period of a defined number of years. The guarantee percentage could not be applied in a flexible manner and was set at a fixed percentage (50% with Raiffeisen and 60% with CRDB) for all loans. This did not provide incentives for the banks to reach out to more risky borrowers (e.g. start ups, innovative borrowers etc) or to reduce the percentage for less risky borrowers (e.g. for established companies with a shortage of collateral). Both additionality, efficiency and effectiveness in the case of the portfolio guarantees were however mainly dependent on the profile of the bank selected, for example Raiffeisen's risk-aware and conservative character turned out to be an impediment.

4.2 MAXIMISING PRO-POOR MARKET DEVELOPMENT

The effects of guarantees reach the target group of the poor indirectly. Borrowers of banks will most likely not belong to the category of the poor(est), but their employees or rural suppliers may be and so may the clients of the health services financed by the Centenary Bank or the clients of the several MFIs to which GCMC reached out. This evaluation could only collect secondary information on impact in terms of employment, health, consumer benefits for poor citizens and indirect effects. This differed from intervention to intervention between modest to visible.

Positive effects were observed especially in the field directly covered by the recipient of the guarantee (clients of MTN-U, GCMC, Raiffeisen bank, CRDB), where in the case of Raiffeisen those effects were below expectations. Examples of such effects are entrepreneurs enabled to invest, rural telecom connections, improved coverage of health services and MFIs globally strengthened. On the other hand, in terms of a sustainable strengthening of inclusive financial markets effects were limited. Portfolio guarantees did not result in 'crowding in' by other banks, neither are partner banks eager to accept lower collateral once the guarantee agreement has expired. Commercial investment in MFI funding was not forthcoming at the scale expected, neither did a market for bonds in Uganda emerge as a result of the intervention.

The guarantee instrument, when it comes to bringing about systemic changes in the financial market, may be a necessary instrument but is definitely not a sufficient tool. It is also not realistic to expect that guarantees, after expiration, will change the behaviour of banks in favour of more risky lending to the SME sector, nor would it be desirable: banks also have a duty in protecting the funds deposited by savers. Guarantees may be necessary for longer stretches of time in order for banks to remain interested in lending to less secure SMEs (also in countries with a developed financial market guarantees are used by government to induce banks to lend e.g. to starters).

Where the guarantees were used for on-lending to SMEs theoretically borrowers or banks could benefit from Technical Assistance. Also MFIs funded by the GCMC fund could benefit from TA. In two of the three cases was the TA component financed by Sida, in the other case it was implemented through a contractor of USAID. Positive effects were particularly visible where the TA had a clear purpose and target group (GCMC II). In the cases of the portfolio guarantees the evaluation did not witness any considerable effects, one of the banks appeared to be largely unaware of the existence. The reason is probably that the link between the guarantee and the TA was loose. They were funded by the same donor (USAID and/or Sida) but a mechanism enabling identification of the need for TA and a referral mechanism seemed to be lacking.

In terms of the broader organisation of Sida, the Unit for Loans and Guarantees is different from the overall organisation of Sida and working with guarantees is very different from working with grants, it requires different decision making and monitoring systems and procedures. The initiative for a guarantee has to come from the strategy owner, whereas the Unit for Loans and Guarantees is responsible for the technical specifications. The strategy owner is however not always fully aware of the different types of guarantees and their possible implementation, therefore the guarantees in the interventions evaluated in practice originated in the Unit for Loans and Guarantees. This unit again was not always fully aware of the needs of the target group and the country and sector context. Similarly, financial monitoring was generally the task of the Unit for Loans and Guarantees, whereas development monitoring was the task of the strategy owner. In the area of guarantees however, financial and development effects overlap and impact is first and foremost measured on the level of the financial intermediary and borrowers.

In the case of the portfolio guarantees subject to this evaluation Sida cooperated with DCA/USAID. DCA has a long-standing track-record in working with guarantees, so Sida was in a position to benefit from much knowledge in the origination, such as how to design and monitor guarantees.. The co-operation also created leverage, normally USAID and Sida guaranteed equal shares.

USAID acted as agent, which is logical seen it is much stronger in terms of manpower presence on the ground. It is more efficient towards the financial intermediary which has to deal with one party only. In terms of financial monitoring, the web-based credit monitoring system of USAID is comprehensive and efficient and gives direct access to information on the utilisation of the guarantee. USAID praises the co-operation with Sida at country level. On the other hand, this co-operation, especially the fact that USAID is agent, derived Sida from the possibility to build up direct capacity to handle portfolio guarantees on the ground. Most of the partner banks considered USAID as their partner, it was therefore not good for the visibility of Sida. Finally, it did not prevent the facility from selecting at least two less appropriate banking partners.

Objectives for USAID and Sida largely coincided for the two interventions we studied, however in the case of the health sector portfolio guarantee there were concerns within Sida that do-no-harm principles were not sufficiently addressed in both the design as well as the monitoring. Generally Sida had a system in place where the strategy owner first has to test the alignment of the intervention with Sida's development goals and its country and regional strategies before it can be approved. Relevance assessments made by USAID did however not address all issues which afterwards appeared to be of importance to Sida.

4.3 AVOIDANCE OF MARKET DISTORTION

Market distortion was not observed, but that does not mean that there is no such risk. Part of the reason for its absence is the limited size of the facility (e.g. Raiffeisen) or the lack of competitors (Uganda). In general not much competition has been created, for example only individual banks were selected as partners instead of selecting a number of banks active in the same sector or focus group.

Sida charges a fee for the guarantee, that covers Sida's expected loss and for the guarantee and the related costs for guarantee technical administration. Part of the fee can be subsidized by grants from Sida. Sida is required to consult with EKN (primarily) in assessing the risk (expected loss) for the guarantee. EKN also manages the guarantee reserve for Sida. For more complex transactions NDO is consulted to provide expert advice because these transactions differ significantly from EKN's regular export insurance business.

USAID used a number of indicators for the calculation of the fee including country, lender, borrower and transaction risk which are weighted based on the relevance of these risks for the specific intervention. For portfolio guarantees, the calculation seemed to be a balancing act between costs recovery and development objectives. It is difficult to say whether the calculations were sufficient to cover the costs and losses in the long run, although very few defaults resulting into claims occurred.

In the case of GCMC II this evaluation found the fee to be too low and to be merely for the benefit of the fund manager and not the ultimate borrowers. In the case of Raiffeisen it was observed that the fee was too low to create commitment at the side of the bank to use the facility (on the other hand, this evaluation was not in a position to prove that at the time of the negotiations the bank would have agreed on a higher fee, and whether a higher fee, normally reflected in the on-lending interest rates, would not have resulted in too high costs for the end-user). The maximum fee was 3% but often the fee was subsidised to prevent the ultimate borrowers (end users) from being faced with unaffordable interest rates or bank fees. Also the rates applied by USAID were lower than the market price as the policy of USAID is not to charge a fee for political risk in the case of local currency lending. The calculation of the Sida interventions was less transparent and was for the first years after the introduction of the guarantee instrument very much based on the approach of EKN for covering the risks of loans extended by international banks for Swedish export contracts. Recent years showed a more pro-active role of the National Debt Office of Sweden.

4.4 MONITORING AND EVALUATION

Generally, Sida (in the case of portfolio guarantees through USAID) was well aware and well informed on the performance of the guarantee in terms of amounts and number of investments and loans covered. Information was obtained through the banks or other partners. The USAID CMS database was a very useful tool.

Agreements with the banks on monitoring and evaluation especially on profile of the client and collateral demands made USAID and Sida dependent on e.g. information entered by the bank in the CMS. Obviously, this evaluation is also not in a position to prove that tighter conditions might not have resulted in an even lower use of the facility.

It was observed that in case of the portfolio guarantees the mere existence of the guarantee was kept secret for the borrowers, in order to maintain repayment discipline. In Bosnia-Herzegovina the evaluation could not ascertain that this was a correct policy, and necessary to enforce repayment. In Uganda, the pure knowledge about involvement of a donor was seen as a ticket to free-ride according to several stakeholders interviewed.

5 Recommendations

5.1 INTRODUCTION

As stated earlier, this evaluation is a learning exercise. This learning element is guided by the evaluation questions in the Terms of Reference. We reiterate in the sections below the questions posed in the Terms of Reference, adding also the questions added at later stages, grouped under the four main questions.

The questions are formulated such that the answers logically coincide with recommendations. They are sometimes intertwined, i.e. additionality and avoidance of market distortion have much in common. Also selection of partner banks has an effect on different criteria. The following should therefore be read 'holistically'.

5.2 WHEN TO USE OR NOT USE THE GUARANTEE INSTRUMENT?

The following evalaution questions will be addressed here:

- When to use, or not to use, the guarantee instrument?
- From an additionality point of view: does Sida serve a niche with its guarantee products which is not yet covered by grants, subsidies or activities of DFIs?

5.2.1 When to use the instrument

It should be borne in mind that a guarantee may be a necessary, but is never a sufficient instrument – it cannot stand on its own. The use of guarantees is demand-driven. The successful use of a guarantee instrument implies that there should be a demand for the products it is supposed to cover, e.g. without a given demand for investment credits there is also no demand for guaranteed credits. This demand is dependent on turnover and profit expectations on the side of the ultimate borrower. The interesting paradox is that the better the economic situation, the more the guarantee is likely to be used. This fact, combined with the risk-awareness that is typical for financial institutions, will always put a strain on additionality.

A guarantee scheme, especially a portfolio guarantee scheme, is more likely to result in private sector growth and other impacts where a country shows growth or is recovering from a recession, or otherwise the investment climate offers opportunities for the SME sector.

In cases where the demand for credits is growing but banks do not have sufficient funds to provide loans to borrowers, a guarantee is not likely to be used (instead, in such cases, if the guarantee is to be used at all, there will be crowding-out of normal credits). Here credit lines, guaranteeing access to funding, may be more appropriate than guarantee schemes. A typical case of this might be where Sida would prefer to work with genuine underfunded local banks in developing countries to strengthen the financial market. Guarantee schemes would be less appropriate in such cases.

The evaluation also looked into two interventions that pursued attracting private investors to finance specific risk market segments. The evaluation confirms the importance of using the guarantee instrument for developing capital markets and attracting investors that are not easily assessing these new markets. In particular for the development of the local capital markets the guarantee instrument can be a useful instrument from a financial as well as development perspective. In that respect we recommend to consider the following:

- Is the guarantee additional from a development perspective? Does it result in additional financing that is not available in the market from other commercial sources?
- Is it important that an additional source of finance is created from a diversification point of view?
- In that connection it is important to ensure that financing structures are created for the benefit of the ultimate development purpose and not for the benefit for the fund manager or recipient of the guarantee.

5.2.2 How to make sure that a niche is served?

Additionality turned out to be a point of attention in all interventions studied, although the scale of the issue varied.

The relation and interaction of guarantees with grants and subsidies is an important topic. Supporting the private sector requires a varying approach and different financial instruments. Providing grants and subsidies to finance companies and commercial activities often creates unfair competition and a private sector over-dependent on subsidies and more importantly not able to internationally compete in the long run. A guarantee is one of the instruments that can be more beneficial for promoting and stimulating the private sector in developing countries. However in many of these countries a large number of donors and NGOs are still active in providing grants to promote the private sector. In particular in regions and countries where the private sector is to a large extent supported by grants or heavily subsidized loans Sida should be careful when entering these markets with the guarantee instrument as banks and commercial investors (Private Equity and Venture Capital funds) may be hindered by this sort of competition.

The efficiency of a guarantee instrument is an advantage however. If well managed and assuming a good risk assessment by the partners involvement of public funds is limited. This allows the instrument in principle to be used in parallel to other instruments. To minimise the possibility that the guarantee conflicts with other instruments of donors and public development banks (DFIs) it is important that the local environment and in particular the status of the financial sector is well analysed.

5.3 WHAT TO CONSIDER WHEN DESIGNING AND MANAGING GUARANTEES TO MAXIMISE PRO-POOR MARKET DEVELOPMENT IMPACT?

Here the following evaluation questions will be covered:

- For the portfolio guarantees – how to set criteria for the loans and define compliance?
- Where on the risk scale should Sida place itself, i.e. how to align additionality and limitation of the risk of facing claims?
- How should TA be used and which interest should it serve: banks or borrowers?
- How can cooperation between the loans and guarantees unit and the strategy owner be improved? To what extent do Sida's strategy owners feel ownership over results achieved through guarantees implemented in collaboration with USAID? Why or why not?
- Collaboration with USAID: To what extent do Sida's strategy owners feel ownership over results achieved through guarantees implemented in collaboration with USAID? How can this be improved?

5.3.1 Loan criteria and compliance

Selection of a bank which fits best the expectations and objectives of Sida is the main method to maximise the use of the guarantee. Banks should be selected for co-operation which can demonstrate access to the type of clients which fit Sida's target groups.

In the case of portfolio guarantees it is essential that the bank and Sida agree on the profile of the borrowers and loans guaranteed. Guarantees should be applied for borrowers who are in essence good entrepreneurs and have viable business plans, but who lack security for a regular credit, or for a credit under conditions which fits their expected returns (e.g. projects with a longer pay-back period will require loans with a longer maturity). Banks should ideally be able to show a certain pipeline of applications, or a list of recent rejects which fit this criterion.

Any attempt by Sida to narrow the target group e.g. by sector or category of clients, will most likely result in a narrower outreach. This also applies for a limitation of the guarantee scheme for first-time borrowers. An agreement with the bank to reserve a certain share of the portfolio for first-time borrowers would be beneficial for additionality however. The quality of the business plan should in such cases be an important element in the assessment. Introducing a more flexible guarantee percentage for high risk borrowers (first time borrowers, start-ups, innovative business plans etc.) could help to allow banks to reach out to these tartget groups. Technical Assistance can equally be beneficial, a topic dealt with later in this chapter.

Ultimately the banks, for the use of the portfolio-guarantees, are dependent on the applications received, steering here is difficult. In order however to maximise the chance that loans are used 'pro-poor', when selecting the bank(s), care should be taken that the bank has the potential to reach out e.g. to rural and underserved regions. In that respect it is important that banks have a branch network in the relevant (rural) areas.

5.3.2 Risk and additionality

The above described approach is most likely to result in a certain percentage of default, which will involve a claim on the guarantee. Interestingly, in the four interventions studied no claim was ever made. If the guarantee is going to be used as actual collateral and partly for first-time borrowers, a claim on the guarantee at least equal to the 'Bank's overall default rate times the percentage of the guarantee' could be expected. Respondents of USAID mentioned to the evaluation that, as a development institute, they would have felt more comfortable with a claim rate close to the expected default in the risk assessment made, rather than with the no-claim situation at present. This is a reasonable point of departure. If on the one hand the guarantee is applied for actual entrepreneurs lacking the normally required collateral, possibly a certain percentage first-time borrowers, on the other hand solid credit assessment methods are applied, the risk will be there but manageable.

Most of all, the banks should be willing to use the guarantee as full collateral, substituting for the collateral otherwise demanded from the borrowers. This also implies that regulatory conditions, imposed by the Central Bank or other regulators, are taken into account. In that respect Sida should refrain as much as possible from imposing additional conditions for applying the loan. In general banks prefer unconditional guarantees as the guarantee may otherwise lose its value to some extent.

TA, if properly applied, can be further used to reduce the risk. Obviously, we are not only talking here about the risk for the bank and/or for Sida, but especially about the risk of bankruptcy, loss of income and loss of jobs etc which a default incurs. Proper application procedures remain therefore essential, which translate also in the need for a part of the risk carried by the bank and, through some collateral, by the borrower: it is a joint responsibility.

5.3.3 Technical Assistance

TA can be an important instrument to improve effectiveness and impact. In the two interventions studied where TA was linked to the portfolio guarantees the relationship between the bank and the TA provider was not self-evident. Banks were merely invited to listen to suggestions from the side of the TA provider. It might be more fruitful if the bank were to refer borrowers to the TA providers, to strengthen some elements in the business performance. For this to happen obviously the TA provider should be sufficiently equipped and professional to warrant the trust of the bank and its client.

Another element where TA, in this case for the bank, would be useful is the strengthening of the awareness of the guarantee by the loan officers. Loan officers are crucial for identification of clients and clients' financial needs, and therefore understanding of the conditions of the guarantee by the loan officers is crucial for take-up and a good use of the guarantee. Training of the officers by trusted trainers provided to the bank by Sida will ease a share of the administrative burden for the bank.

In the cases studied the TA providers were funded by Sida (and USAID). In such a case it is logical that these providers are included in arrangements proposed above. In cases where Sida or its partner is not involved in the funding of TA, it is advised to search for existing and proven TA providers (properly vetted, trusted by the SME and banking community) rather than setting up a new TA scheme.

5.3.4 Co-operation between the loans and guarantee team and the strategy owners

The coordination between the Unit for Loans and Guarantees and the strategy owner is of crucial importance for efficiency of the guarantee operations. Training of strategy owners on basic knowledge about guarantees and financial instruments, and regular discussions between the two units on possible areas for interventions can lead to a better use of the guarantee instrument and a more successful origination of transactions. Especially in the design and approval phase, it is important that the strategy owner and the loans and guarantees unit cooperate closely to ensure consistency with the country and regional strategies. In the area of monitoring, it is recommended to clearly define goals and indicators in the design phase and assign responsibilities for follow-up. The strategy owner is present on the ground however lacks the technical knowledge to properly follow up on the use of the instruments. We recommend that the responsible portfolio manager at the Unit for Loans and Guarantees takes the lead in the follow-up of the guarantee and in the communication with the financial institution as well as potential partners. To ensure consistency with the strategies the Unit for Loans and Guarantees and the strategy owner should have regular discussions on the monitoring data, and commonly decide on action points, if necessary. A bi-annual visit of the portfolio officer to the field is recommended.

5.3.5 Co-operation with USAID

When cooperating with USAID, Sida should increase ownership within its own organisation by carrying out a thorough assessment of the circumstances of the intervention and potential negative effects on its own. If the information provided by USAID is not considered sufficient, an independent study can be commissioned. It is important to include local expertise in this assessment. Sida should under no circumstances embark on projects of which it does not have sufficient context knowledge. The assessment can also give insights into potentially useful TA interventions which can complement the guarantee and increase the development impact, like in the case of promoting self-regulation in the private health sector in Uganda (see intervention report CRDB). In the design phase Sida should discuss with USAID how to include indicators in the monitoring plan which are of specific importance to Sida.

5.4 HOW TO AVOID MARKET DISTORTION

This involves the 'sub-questions':

- How to select partner-banks, can we use multiple banks?
- How to make sure how and when the guarantee will be used by the bank?
- Pricing of the guarantee.

5.4.1 Use of multiple banks?

In order to minimise the risk of market distortion, preferably a number of banks should be selected to execute the guarantee scheme. By doing so the guarantor creates competition among banks which increases the possibility that the guarantee is used in an efficient manner, avoiding local market distortion and ensuring a level playing field as far as possible. However this set up can only work well when the following preconditions are taken into account:

- The existence of the guarantee scheme should be made public and well explained (not to be interpreted as a free ride for borrowers).
- The guarantee should be priced in such a manner that it makes a difference for the borrowers as well as the bank.
- Both a threshold as well as a maximum ceiling should be introduced for the available guarantee volume.

5.4.2 Ensuring use of the guarantee

As mentioned making the guarantee available more broadly avoids unfair competition as long as the banks active in this field all have access to the instrument and have to pay a fair price for using the instrument. The price should be set at a level which makes it attractive (and affordable) for borrowers. However to avoid improper use of the guarantee the price should be set at such a level that it makes a difference for the bank. When introducing this approach we recommend that the use of the guarantee is closely monitored (in particular at the start of the guarantee facility). Depending on the use of the guarantee Sida can decide every year (or half year) to increase or to lower the maximum ceiling for each bank. When it appears that the facility has not been used (when the use is below the set threshold) by a specific bank Sida can decide to phase out the facility.

A guarantee is a market and demand-driven instrument, so ultimately Sida has limited influence on the real utilisation. In case of low utilisation, which again should be detected through the monitoring process, the ceiling could be lowered and remaining reserves could be used elsewhere (as indeed has happened in the case of one of the interventions studied). Sida may, in case of under-utilisation, insist on more promotion of the instrument – however, care should be taken that this does not go to the detriment of the quality of the application assessment.

It was observed that fixed guarantee percentages were applied (e.g. 50% or 60%) in the portfolio guarantee schemes. If banks were allowed the discretion to apply some variance, i.e. between 20% and 60%, applying higher percentages for riskier loans and lower for less risky loans, additionality might be served and also a larger number of borrowers reached.

5.4.3 Pricing of the instrument

For the portfolio guarantees the affordability for borrowers is an important aspect to determine the fee rate. However we recommend to set the fee at a level where the banks understand that the guarantee is not for free and takes into account the risk involved. Of course the outcome should be that the costs of the guarantee should be affordable for the ultimate borrowers. In principle the financial model that is used by USAID covers all risks involved; however in the end it is decided to subsidize the fee by both donors. We did not find clear indicators guiding these subsidy decisions. In general we recommend that the fee is calculated based on the present indicators of USAID. Subsidising the fee should be considered on practical grounds including affordability, access to finance and the way banks are using the guarantee (using it as extra security or not).

For other interventions that Sida may consider it is important that pricing is well considered. In complex structures when leveraging investors it is important that the fee to be charge is correlated with the expected return of the investors. In principle it is good practice to charge fees that represent the full risk. Only in cases where the ultimate beneficiaries are affected as a result of the rate of the fee and where the development purpose is negatively affected, Sida should consider to subsidize the fee. Clear guidelines should be developed to guide decision making in such cases.

5.5 MONITORING AND EVALUATION

The following issues will be covered here:

- How to monitor and evaluate guarantee interventions, including assessing additionality?
- Does the M&E system of USAID serve Sida's purpose and are they in line with Sida's country/regional strategies?

5.5.1 Monitoring and evaluation of the interventions

Category of client (employment, turnover, balance total), credit history (including no history), financial data and collateral, main elements in the business plan, size and conditions of the loan and the motivation for the use of the guarantee form sufficient hard indicators on which the performance of the guarantee in terms of outreach and additionality can be monitored. These facts suffice to show compliance with the agreement on the profile of the target group. Monitoring is in first instance the responsibility of the bank, but clear agreements should be made with the bank on access to information on present and past borrowers for Sida staff and Sida-appointed external evaluators. The latter would allow for interim and final evaluations carried out by Sida and/or external consultants. Access to data should also involve information on the non-guaranteed part of the bank's portfolio, for comparison purposes.

Additionality, proven to be a sensitive criterion, should be monitored by:

- looking at the ratio loan/collateral demanded, liquidity and solvency of the 'guaranteed' clients;
- ideally comparing the above to averages or samples of the non-guaranteed portfolio.

The financial institution should however not be overwhelmed with monitoring of development impact beyond financial indicators on the loans as well as general indicators such as assets, turnover, profit and employment of the beneficiary as this is neither effective nor efficient. Instead, the task of development monitoring can be outsourced to a local consultant who works for Sida on a service contract or similar and carries out annual reviews or short evaluations.

Where possible, we would advise that the borrowers are made aware of the existence of the guarantee, to enhance transparency and ease of monitoring or evaluation.

5.5.2 Monitoring by USAID

In the case of portfolio guarantees a monitoring system like the one USAID uses is needed to get regular information on the utilisation of the guarantee and to decide on appropriate actions. Also for other guarantees there is no good oversight of the development of the risk exposure within Sida. Currently such systems are not in place. Therefore, if Sida wants to continue with guarantees and carry out interventions more independently (from USAID), it is absolutely necessary to invest in a suitable risk management system and organisation.

Annex 1: Terms of Reference

Evaluation of Sida's use of Guarantees to Promote Market Development and Poverty Reduction

Terms of Reference

Date: 2015-07-03

Case number: 14/000754

1 BACKGROUND

Sida is a government agency under the Ministry for Foreign Affairs responsible for Sweden's bilateral development cooperation. All Swedish development cooperation ultimately aims at improving the living conditions for people living in poverty and oppression.

Sweden shares the view expressed in the outcome document from the 4th High Level Forum on Aid Effectiveness in Busan 2011, that the private for profit sector is a critical component as an engine of economic growth, job creation, innovation and sustainable development. Poor people depend on markets for income and the purchase of goods and services.

One out of the six goals in Sweden's aid framework is particularly linked to market development: Achieve improved opportunities for poor people to contribute to and benefit from economic growth and obtain a good education. In order for the private sector to be able to contribute to economic growth, it is necessary to create more inclusive, transparent and effective markets that can provide access to jobs, products, opportunities to sell goods and financial services.[2]

[2] There are four main focus areas within Sida's support to market development:

- *Private sector development*, e.g. support to reforming the business environment, developing value chains, expanding business development services and strengthening business organisations
- *Financial systems development*, e.g. building financial sector legal and regulatory frameworks and supervisory capacity; developing local capital markets; and expanding access to financial services, including microfinance

Sida has also been instructed by the Government to develop methods for innovative forms of cooperation, including financing solutions. The budget bill for 2015 states that in an ever more complex aid environment there is a need for continuous development of cooperation mechanisms and financing solutions. In response to this Sida has initiated a project on innovative financing, with the aim of finding proposals for how the Agency can scale up and improve its use of innovative financing.

An instrument that has received more and more attention during the last couple of years and that complements Sida's most common funding modality – grants – are guarantees. Guarantees are intended to enable investments that would otherwise not have taken place, for the ultimate benefit of people living in poverty. Hence, the guarantees should always be seen as a means to a defined end. Financial markets are targeted directly, while other markets which in turn depend on the finance sector, such as agriculture, trade and tourism are targeted indirectly. Hence, the guarantee instrument always entails an aspect of market development irrespective of the final objective of the intervention.

The guarantees are expected to result in increased finance to markets (financial additionality) and thereby socio-economic benefits (economic additionality). One of their intended benefits is to enable leverage of additional funding from the private sector. By showing that lending to a certain market segment can be profitable – the "demonstration effect" – it also expected that it will continue its lending, possibly also followed by others, which will make interventions catalytic and sustainable.

Sida's current guarantee portfolio[3] includes 26 interventions with a total guarantee value of 4.3 billion SEK. Main sectors are Market Development (including to SME), health, environment and infrastructure. Volume wise half are global interventions while 29% are in Africa, 20% in Asia and 7% in Europe. In addition, there are sometimes guarantee components in programmes financed over country budgets.

- *Trade policy and regulation*, e.g. building overall trade policy and planning capacities; training and participating in regional and international trade negotiations; supporting trade facilitation; supporting capacity building related to technical regulations and trade-related standards
- *Employment and labour markets*, e.g. building institutional capacity in employment policy and planning, labour laws and labour unions.

[3] Sida's Guarantee Portfolio 2015.

Sida's Unit for Loans and Guarantees (LÅN) provides advice to embassies and other units within Sida on guarantee technical aspects. It also works to build competence within Sida and to develop methods and routines to facilitate the use of the guarantee instrument in order to mobilise financing to important interventions.

Various concerns about the guarantee instrument have also been raised in evaluations and research. For example, the extent to which there is actually a financial additionality has been subject to debate and appears to vary. It has been argued that guarantee programmes are based on a false premise that public institutions are in a better position to assess risk than the financial sector.[4] It has further been questioned whether the guarantees actually address the fundamental market failures resulting in low lending and have systemic market development effects ultimately benefiting people living in poverty. Another issue has been the risk of market distortions. The long-term costs of guarantee programmes have also been questioned.

Although Sida has been working with guarantees since the late 1990's it has never made any comprehensive evaluation of its guarantee programmes.[5] Hence, there is limited evidence stemming from Sida's own programmes on the effectiveness of the guarantee instrument. There is also limited results information on these interventions for external reporting and communication. A desk review on support to market development concluded that "there is a need to carry out a more detailed assessment of the use of guarantees funded by Sida to measure their real financial and economic additionality".[6]

2 OBJECTIVE OF THE EVALUATION

The overall objective of this evaluation is to deepen Sida's knowledge about the guarantee instrument as a tool for market development and poverty reduction. It shall complement the existing knowledge base (mainly research and evaluations carried out by other donors) by studying a number of interventions supported by Sida specifically.

[4] Barder and Talbot. (2015). *Guarantees, Subsidies, or Paying for Success? Choosing the Right Instrument to Catalyze Private Investment in Developing Countries.* Center for Global Development. Working Paper 402.

[5] Sida has, however, commissioned some reviews and USAID has evaluated some of the programmes which Sida has been co-funding and Sida.

[6] Sinha, Holmberg and Thomas (2013) *What works for market development: A review of the evidence.* Sida. UTV Working Paper 2013:1.

Although the evaluation will focus on a few specific interventions, it is *not* carried out for the management of these interventions but to gain lessons of broader relevance. The purpose is *not* accountability but learning.

The evaluation is to be used by Sida's Director General as an input to strategic planning and decision making. It shall further be used by the Unit for Loans and Guarantees in its role to build competence around guarantees and to develop methods and routines, as well as for Sida's operative units to enhance their own knowledge of the instrument. Finally, the evaluation may serve as an input to Sida's project for innovative financing as well as for reporting from Sida to the Ministry for Foreign Affairs.

3 SCOPE AND DELIMITATIONS

The evaluation will focus on four interventions which all aim at systemic market development:

- Deutsche Bank, Commercial Microfinance Consortium II, (Global)
- Raiffeisen/USAID (Bosnia and Herzegovina)
- Centenary Bank for Rural Development /USAID Health Guarantee (Uganda)
- MTN Mobile Coverage (Uganda)

They were sampled purposively from their *potential to gain new knowledge* (including variation in terms of objectives, types of guarantees, markets and contexts) and *evaluability*.

Time period shall be from the start of interventions until today, recognizing that all interventions but MTN are still on-going. In principle the evaluation covers the evaluations as a whole but a need of further sampling in the research process is foreseen. Technical assistance (TA) or other support activities part of the interventions, or closely linked to them, shall also be included.

4 EVALUATION QUESTIONS AND CRITERIA

The overall evaluation question is: what have been the results of the guarantee interventions in terms of market development for the benefit of people living in poverty. In combination with an analysis of how the interventions were designed and managed, lessons shall be drawn on how to best use the guarantee instrument.

For each intervention assessed the consultant shall answer the following questions:

Design and implementation

1. What have been the intervention's objectives at different levels and its explicit or implicit "Theory of Change"?
2. What has been the set-up of the guarantee intervention, including rules, fee structure, agency relationships, M&E and possible complementary TA and/or linkages to other programmes (including possible changes over time)?
3. How did the process of designing the intervention, and Sida's appraisal of it, look?

Financial market development

4. What have been the lending volumes, utilisation rates, use of guarantees and default rates?
5. Has lending from the finance institution to the target market increased as a result of the intervention? (Financial additionality and "leverage")?
6. Has the intervention led to a changed behaviour of finance institutions, including other, in terms of e.g. selection of clients, credit assessment and new actors on the market (systemic financial market development)?
7. Has the interventions resulted in any negative effects, such as market distortions or irresponsible lending/borrowing?

Second-level market development and poverty relevance

8. Have the loans resulted in productive investments and market development as intended for the particular intervention?
9. If so, has this been relevant to improve the lives of people living in poverty

Concluding evaluation questions:

10. Effectiveness: To what extent have the stated objectives of the interventions been fulfilled, or can be expected to be fulfilled?
11. Impact: What positive or negative effects beyond the stated objectives have there been?
12. Sustainability: How likely is it that positive results will be sustained over time?
13. Relevance: Was the intervention a relevant response to address the market development problem in its specific context.

The evaluators shall also analyse what features in the design and management of the intervention, as well as in the context, that have contributed to, or militated against, good results. What could possibly have been done differently to achieve better results?

5 CONCLUSIONS, LESSONS LEARNED AND RECOMMENDATIONS

The sampled interventions are not representative for Sida's portfolio as a whole. Rather than generalising, the evaluators shall therefore present a discussion on the broader relevance of their findings, including how the findings support or contradict previous experiences. Similarities as well as differences between the studied interventions shall be highlighted.

Based on the above, the evaluators shall present recommendations to Sida on how to pursue its future work with guarantees, both strategically and at a technical level, including but not necessary limited to:

- When to use, or not to use, the guarantee instrument;
- What to consider when designing and managing guarantees to maximise pro-poor market development impact;
- How to avoid market distortion;
- How to monitor and evaluate guarantee interventions, including assessing additionality.

Recommendations for the management of the particular interventions, if any, shall be provided separately and be included in the main report.

6 APPROACH AND METHODOLOGY

The consultant shall propose a suitable approach and method to answer the questions above.

In very general terms, each intervention can be seen as representing a certain "Theory of Change" which shall be analysed. It is not expected that the evaluator will always be able to quantify to what extent observed changes in terms of market development and poverty reduction can be attributed to the studied interventions. However, a solid analysis of the interventions contribution shall be presented.[7] It is particularly important that the evaluation team uses a methodology that can capture financial additionality.

The evaluation shall be carried out in a way that facilitates learning for Sida and concerned stakeholders.

Relevant gender dimensions shall be identified and taken into consideration.

The evaluation shall conform to OECD/DAC's quality standards.

7 STAKEHOLDERS, ORGANISATION AND MANAGEMENT OF THE EVALUATION

The evaluation has been commissioned by Sida's Director General as part of Agency's annual operational plan (VP).

It will be managed by *Sida's Unit for Planning, Monitoring and Evaluation* (PME) in accordance with Sida's internal process for managing evaluations.

A *reference group* has been established to give input to the evaluation process and with the intention to facilitate its forthcoming use. The reference group members shall comment on draft reports and participate in key meetings with the evaluation team. When the evaluation is completed, the reference group will also be responsible for drafting the Management Response to the evaluation, for the Director General's decision.

LÅN will have a key role in this evaluation. Apart from being represented in the reference group the unit shall designate one person to facilitate the evaluation and serve as contact point for the evaluators and PME. The unit will further be responsible to provide all relevant Sida documentation to the consultants, if necessary with input from other parts of Sida. A representative from the unit shall also have the possibility to participate in parts of the field work, to the extent that it does not disturb work or compromise the independence of the evaluation. LÅN shall also liaise with partners and other guarantors of the programmes, such as USAID.

Other *concerned Sida units/Embassies* shall be represented through the reference group. They shall also facilitate the work of the consultants, including contacts with stakeholders, and make documentation available as needed.

[7] The work of John Mayne may serve as a point of departure. See, for example, Mayne (2012) Contribution analysis: Coming of age. Evaluation 18:3 270–280.

The *financing institutions* shall provide data as required for the evaluation, as well as facilitate contacts with clients and stakeholders. They shall also be given a possibility to provide comments on draft reports.

The role of *lenders and final beneficiaries* will primarily be as suppliers of information.

The evaluation shall be carried out by an external *evaluation team* in accordance contracted by Sida. The evaluation team shall report to PME but is also expected to have extensive direct contact with LÅN and other concerned parts of Sida.

8 DELIVERABLES, REPORTING AND COMMUNICATION

The evaluators shall deliver the following:

1. An *inception report*, to be presented at an early stage, including but not necessarily limited to:
   - Findings in respect to evaluation questions 1–3 (Design),
   - A further elaboration of the evaluation questions in the form of an evaluation matrix,
   - A detailed account of methodology, including a conceptual framework and specification of how data collection and analysis will be done,
   - Possible delimitations to be discussed and agreed upon with Sida,
   - Risk (i.e. uncertainties that may affect successful implementation of the evaluation) and how these will be handled,
   - A detailed time and work plan,
   - A draft communication plan.
2. *Working papers*, to be presented after field work that contain data, main findings and conclusions for each of the interventions (maximum 20 pages of text in Sida's standard format, excluding annexes.)
3. A *main report*, presenting principal findings from the selected interventions, overall conclusions and recommendations (maximum 50 pages of text in Sida's standard format, excluding annexes).
4. Presentation of the evaluation at a dissemination event to take place in Sweden at the end of the evaluation (details to be specified in consultation with Sida at a later stage).
5. An "*Evaluation Brief*" and a short text for the *back-cover of the report*.

The evaluation team shall be available for meetings with Sida in Stockholm for the start-up, presentation of the inception report, and for presentation of the draft report and for the dissemination event. Feedback on how the evaluation progresses shall be provided regularly to Sida and concerned stakeholders. Debriefing meetings/ workshops with the respective Embassies and partner organisations shall be held at the end of each country study.

All reports shall first be presented as drafts to Sida and relevant stakeholders for comments and approval. All reports shall be in English and use the terminology of the OECD/DAC Glossary on Evaluation and Results-Based Management as far as possible. The reports shall be written in a template provided by Sida, be proof read and delivered in a way that enables publication (in black and white) without further editing.

9 TIME SCHEDULE

The evaluation team must be able to start work no later than two weeks after signing of the contract, present a final report no later than eight months after start and be available for disemination activities at a later stage.

The consultants shall in their tender propose a suitable time and work plan.

10 RESOURCES

The consultants shall in their tender present a budget for the evaluation, including ceiling amounts for fees and reimbursables. A budget ceiling for the evaluation has been set at 2.5 million SEK.

11 EVALUATION TEAM QUALIFICATIONS

The evaluation shall be carried out by a team of consultants. One team member shall have the role as Team Leader with the overall responsibility for the evaluation. Team competence is specified in the invitation to tender.

Annex 2: List of stakeholders interviewed

General	
Sida Loans and guarantees	Lena Kövamees Ebba Aurell Christopher Onajin Martin Ingvarsson Roger Garman Jan Grafström (formerly at L&G department)
Sida Programme managers	Ola Sahlén Malin Krook Anne Lindeberg
EKN	Rebecka Lundgren
USAID/ DCA	Kofi Owusu-Boakye Ana Luisa Pinto Leila Ahlstrom Elma Bukvic Alexander Heaton Romi Bhatia
Raiffeisen	
Sida, Embassy Sarajevo	Nedim Bukvic
USAID, Sarajevo	Thomas Rojas – USAID Director for Economic Development in BiH Amira Ramhorst – Deputy Economic Office Director BiH
Raiffeisen Bank	Slaven Vidovic – Relationship manager Amela Redzovic-Halilovic – Zamjenik Direktora Filijale Novo Sarajevo Vilimir Ponjarac – Director Filijale Tribinje Armin Suljic – Head of Sales support – Retail Sales Adisa Kurtovic – Product manager za kreditne i dokumentarne proizvode za pravna lica Danijela Dobric Edina Sendijarevic

Banking regulators	Ankica Kolobaric – Vice Governor Central Bank of BiH Mustafa Brkic, Federation of Bosnia and Herzegovina Banking Agency, Counselor to the executive director.
FARMA	Jim Herne, Chief of party of USAID SIDA FARMA II project Esma Mustajbasic – Access to Finance Specialist for USAID DCA Portfolio Management
GCMC	
Deutsche Bank	Celia Wong, Vice President Global Social Finance Rocio Cavazos – Vice President Global Social Finance Amy Wang – Vice President Global Social Finance Caroline Vance
Other Fund Managers	Mark van Doesburgh – Managing Partner Triple Jump Nico Pijl – Former Executive Board member FMO Asad Mahmood – SimaFunds, former fund manager GCMC
Investors in GCMC II	Terence Whelan – Senior Credit Analyst, Vice President Investment Management State Street Nicolle Legendre – Director Asset Management Portfolio Management Department OPIC Karl von Klitzing – Principal Project Manager KfW
Centenary Rural Development Bank	
Sida, Embassy Kampala	Anne Lindeberg, First Secretary, Health and Social Protection Ane-Kirstine Bagger Birnbaum, National Program Officer, Gender Equality & SRHR
USAID, Kampala	Jackie Wakhweya – Private Sector Unit Leader
USAID –PHS (Cardno)	Dr Dithan Kiragga – COP Francis Zikusooka – Access to Finance/Business Strengthening Team Leader
Centenary Bank HQ	Joseph Lutwama – GM Credit Paul Rhone Lubega – Manager Commercial Credit Diverse branch managers and relationship officers
Ecobank	Annette Kihuguru – ED Johnson Galabuzi – Head of Local Corporate and SME banking
Ministry of Health	Dr Timothy Musila – Principal Health Planner
aBi Trust and Finance	André Dellevoet, Group Chief Executive Officer Josephine Mukumbya, Chief Operating Officer

Uganda Central Bank	Godfrey Yiga Masajja, Deputy Director Commercial Banking
Uganda Health Federation	Grace Ssali Kiwanuka, Executive Director
MTN Uganda	
Airtel	Julius Wejuili – Business Analyst
Stanbic Bank	Henric Thörnberg – Senior Advisor
Uganda Securities Exchange	Paul Bwiso – CEO
Capital markets authority	Joseph Lutwama – CEO Dennis Kizito, Market Supervision Officer
NSSF	Richard Byarugaba – MD

Evaluation of Sida's use of guarantees for market development and poverty reduction

Evaluation report

The overall objective of this report is to deepen Sida's knowledge about the guarantee instrument as a tool for market development and poverty reduction. The focus of the evaluation is on lessons learned from four specific interventions, as to the extent to which the guarantee instrument actually manages to bring about the expected and desired changes, possible hurdles met, either unforeseen problems or possible misconceptions in the design, and ultimately on ways to improve the working of the instrument in the future.

The evaluation was carried out by Carnegie Consult with the support of associates and local consultants. Consultants involved in the assignment include Hans Slegtenhorst, Mart Nugteren, Alwin de Haas, Rien Strootman, Marie Heydenreich, Paulo Luswata, Nino Serdarevic, Anders Grettve and Bart Schaap. Anders Berlin and Camilla Rubensson from the Unit for Loans and Guarantees of Sida and Sofia Ericsson from the Unit for Planning, Monitoring and Evaluation joined two field missions as observers.

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