PROFILING SIDA'S GUARANTEE PROGRAMME

KNOWLEDGE BUILDING REPORT

CONVERGENCE
BLENDING GLOBAL FINANCE

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SUGGESTED CITATION:

Convergence Blended Finance (2022). Profiling Sida's Guarantee Programme. Convergence Knowledge Building Report.

ACKNOWLEDGEMENTS:

This report was made possible by the support of Sida, the Swedish International Development Cooperation Agency

EXECUTIVE SUMMARY

The Swedish International Development Cooperation Agency (Sida) is Sweden's government agency for development cooperation. It works alongside civil society organizations, multilateral organizations, and increasingly the private sector in around 35 countries across Africa, Asia, Latin America, and Europe. Established to promote poverty reduction in these markets through the deployment of primarily Official Development Assistance (ODA), Sida has scaled up its focus on mobilizing private capital for development in recent years, inspired by the conclusions of the major international development summits of 2015: the 2030 Agenda for Sustainable Development and the Addis Ababa Action Agenda. To achieve this, Sida has developed a guarantee instrument that, through risk-sharing, mobilizes private sector engagement and unlocks additional private capital for development.

Since the early 2000s, Sida's guarantee portfolio has grown from a few pilot interventions based on an institutional partnership with United States Agency for International Development (USAID) to a permanent portfolio instrument, with innovative applications, like extending risk coverage to regional fund structures. By the end of 2021, Sida had 45 active guarantees with a total commitment of SEK 10.3 billion. Overall, Sida guarantees are utilized across sectors as a strategic and cost-effective risk-sharing tool to promote inclusive economic growth by unlocking financial resources and facilitating access to credit within a target guarantee frame of SEK 18 billion in 2022.[1]

Guarantees are a type of insurance policy that protects investors from the risk of non-payment on outstanding loans by borrowers. Guarantees typically address political or commercial risk factors that investors cannot bear. However, beyond the initial function of guarantee deployment to mitigate risk and enhance lending to target groups that have limited to no access to credit, the following evaluation of Sida's portfolio found guarantees to be valuable instruments that positively contribute to development through four modes of influence: (i) producing development impact through an identifiable theory of change aimed at poverty alleviation; (ii) mobilizing private capital while avoiding negative market distortion; (iii) creating value through policy and regulatory changes to improve the capacity of domestic markets and local institutions; and (iv) innovating mechanisms to use guarantees to promote clean energy production and climate solutions.

The Report profiles the Sida Guarantee Program since its inception and presents findings on how guarantees can mobilize private investment for the Sustainable Development Goals (SDGs), determines the most effective uses of guarantees, and identifies how different organizations / funders can participate in guarantee issuance to better contribute to the achievement of the SDGs.

The Report is divided into five parts:

- **PART I** provides a background and conceptual discussion of guarantees, including benefits and risks
- **PART II** provides a background on guarantee issuers, market players, and intermediaries
- **PART III** explores the history of Sida's guarantee programme, profiles Sida's guarantee portfolio, explores stakeholder perspectives on designing and deploying the instrument, and spotlights vital case studies
- **PART IV** outlines key learnings and practical guidance on best practices for guarantee issuance
- **PART V** lists key recommendations on how the development community can best deploy guarantees to mobilize private investment at scale

1 Sida Portfolio Analysis 2021 and 2022 letter of appropriation

PART 1

BACKGROUND ON GUARANTEES

WHAT IS A GUARANTEE?

A financial guarantee is a legally binding agreement between a guarantor (guarantee provider) and a lender or investor (guarantee recipient). The guarantor agrees to pay the full or partial amount owed to the guarantee recipient in the event of non-payment by an obligor (borrower) or value loss on an investment. A development guarantee is a sub-type that covers loans or investments into opportunities that explicitly seek to promote economic, social, and/or institutional development in developing markets.

A guarantee's essential function is to transfer an amount of risk away from the capital provider onto the guarantee issuer. Risk reallocation is particularly important in developing markets where high perceived risks often prevent private sector investment. Whereas other instruments such as loans and equity are exposed to all the risks in a transaction, guarantees are designed to address one or more specific risks (i.e., political risk, credit (default) risk, currency risk) with unique payment triggers associated with the risk(s) outcome(s). This precision makes guarantees the minimum necessary intervention to enhance a transaction's risk-adjusted returns to reach financial close.

Guarantees are priced based on the expected loss of the specific risks being addressed. The fees paid by the guarantee recipients capitalize a reserve account. In the event a guarantee is called (i.e., in the case of obligor default), reserve account funds are used to pay the guarantee obligation stipulated under the guarantee agreement. Depending on the guarantor institution, the reserve account may be credit backed by another institution (i.e., a government institution or a secondary guarantor) to (i) ensure the ability to pay in the event multiple guarantees are called simultaneously and (ii) raise the credit quality of the guarantor itself to maximize the credit impact of its guarantees. For example, the Swedish International Development Cooperation Agency's (Sida) guarantee reserve account is unconditionally backed by the Swedish state budget.

Guarantees can also be issued on a below-market price (concessional) basis. A guarantee's degree of concessionality can be a function of (i) pricing fees below an established market benchmark or (ii) the subsidization of fees by the guarantor or a third party. Concessional guarantees are critical tools in blended finance because they provide affordable credit enhancing and risk mitigation support to borrowers operating in a market where commercial financing is scarce.

There are two overarching types of guarantees;

i. funded guarantees; and

ii. unfunded guarantees.

Funded guarantees require that the guarantor holds part of the dollar value of the guarantee in escrow throughout the duration of the guarantee's life. Unfunded guarantees only require the guarantor to hold the determined expected loss in reserve. As such, unfunded guarantees have more significant mobilization potential given the limited impact on the guarantor's balance sheet.

GUARANTEES vs INSURANCE – *WHAT'S THE DIFFERENCE?*

Guarantees and insurance are both contingent liabilities; that is, the obligation for payment depends on a future event's occurrence. However, a few essential details differentiate insurance instruments from guarantees:

i. guarantees involve three parties (the guarantor, the capital provider, and the borrower), while insurance agreements are bilateral (insurer and insurance recipient (lender));

ii. guarantee payment is related to non-performance in a transaction (i.e. default, losses exceeding a defined threshold), while insurance covers against losses from unexpected events, often requiring multiple conditions to occur in order to warrant payment;

iii. guarantees are typically tailored to the specific issuance context, while insurance provision is derived from standardized contracts; and

iv. guarantees must involve the possibility for a post-claim recovery of the payment after they have been utilized, while insurance contracts have no obligation for such a recovery.

THE NEED FOR GUARANTEES

Over the past 20 years, there has been growing recognition that guarantees hold great potential in spurring larger capital flows into and within developing markets, including through blended finance transactions. Guarantees are one tool that can be used to adjust the risk / return ratio of investment opportunities in developing markets to an acceptable level for private investors, thereby crowding in additional funding towards developing countries. Guarantees can be used to mitigate, for example, the risk profile of emerging countries, whose sovereign risk ratings fall below sub-investment grade (e.g., BB or B), which effectively preclude private investors from considering regions in their portfolio.

Overall, guarantees represent a sizeable proportion of risk mitigation tools used in the blended finance market; ~30% of all blended finance transactions captured by Convergence feature the use of guarantees. However, data captured on Multilateral Development Banks (MDBs) and Development Finance Institutions (DFIs) demonstrate that guarantees represent only a fraction of the overall instruments deployed by development institutions (under 10% across all major MDBs). There is, therefore, a greater need for guarantee deployment to contribute to the SDG financing gap and achieve the "Billions to Trillions" agenda.

Key benefits of guarantees are summarized below:

1. PRIVATE SECTOR MOBILIZATION

Guarantees can shift a project's risk profile to be more acceptable to private investors, and when structured to be concessional, they can also reduce the cost of capital for private sector investors to encourage lending from financial institutions and investments from institutional investors, asset managers, and pension funds into developing markets. The robust credit ratings of most guarantee issuing institutions enable guarantee products to meet the investment requirements of cross-border institutional investors. As a result, guarantees have increasingly been associated with unlocking the greatest amount of private sector financing; when comparing amounts mobilized from the private sector by official development finance interventions between 2012-2018, guarantees mobilized more private capital than direct lending or equity investments (OECD, 2020).

2. CAPITAL EFFICIENCY

Guarantees are considered a capital-efficient instrument, particularly for development agencies, because they do not require an immediate outflow of funds and can free up funding to be used where it is most needed. By freeing up capital, development practitioners can thus optimize their balance sheets, boosting lending to other sectors and expand guarantee provisioning. Further, some development agencies, such as Sida, are backed by sovereign governments with investment-grade ratings, meaning their lending practices are restricted by a credit rating obligation. This enables such institutions to guarantee riskier investments. Effectively, the guarantee reserve is not capitalized up front and is based on the government's AAA rating. As shared by Magnus Cedergren, former Head of Guarantees at Sida and current Head of Danish IFU's Guarantee Facility:

> *"Sida requires a lot less ODA than any other instrument, as the guarantee reserve is not capitalized up front but is based on Sweden's AAA credit rating. Any other institution or DFI would need to hold in principle the provisioning of the guarantee reserve in its balance sheet, but it's not necessary for Sweden to have the cash in the account. It's accounted for but doesn't sit there in reality."*

3. DEVELOPING LOCAL CAPITAL MARKETS

Guarantees are an effective tool to help mobilize domestic resources already existing within local markets, for example, from local institutional investors or financial institutions. However, according to an OECD Financing Report, guarantees tend to back capital not mobilized in the same countries where it is deployed. There is a scope and need to increase the use of guarantees to tap local savings and develop domestic capital markets in the developing countries where the guarantees are being utilized. As Anna Holmryd, Senior Adviser for International Development Cooperation at Sweden's Ministry for Foreign Affairs, states:

> *"Donors need to engage more with guarantees, by supporting capable local financial institutions in achieving successful deployments, they can help build local capital markets and effective enabling environments."*

For guarantees to be effective in promoting local market development, however, preconditions like proper institutional frameworks and an appropriate investor environment must be in place.

4. SHARING RISKS WITH FINANCIAL INSTITUTIONS

Risk-sharing agreements between development funders (e.g., Sida, British International Investment) and financial institutions (e.g., Standard Chartered) enable banks to increase their exposure limits and expand lending to riskier market segments. Guarantees have also often been paired with technical assistance to help strengthen local banks' management processes and their ability to reach new market groups, as has been done historically by guarantee providers like Sida, USAID, and now the United States International Development Finance Corporation (DFC).

KEY IMPACTS OF GUARANTEES TO DATE
(IMPACT ADDITIONALITY)

The high mobilization rate of guarantees translates into significant impact additionality when issued to support investment into development projects. The infrastructure, energy, and financial services sectors have been common guarantee-backed investment targets; these sectors draw significant private sector appetite given their traditional and structured revenue / returns flows. Convergence's Historical Deal Database (HDD) has captured 39 guarantees for infrastructure, 95 guarantees in the energy sector, and 49 guarantees for financial service deals, underwriting $4.9 billion, $11.7 billion, and $2.5 billion of investment respectively (Figure I). Similar findings were disclosed in the OECD's 2019 Mobilization Report, which found that infrastructure, energy asset creation, and financial services received the bulk of mobilized financing, totaling $5.43 billion and $4.45 billion, respectively.

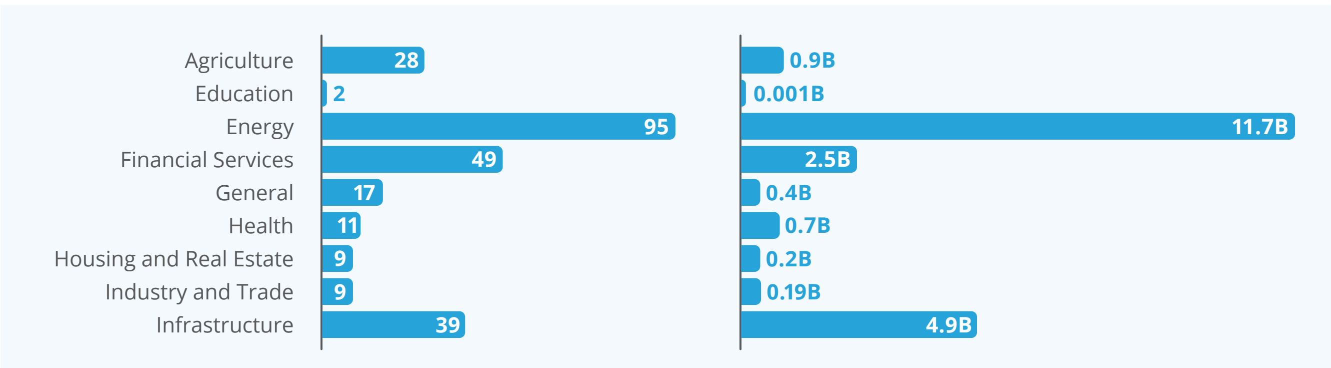

Figure I: Number of guarantees issued by sector and corresponding investment underwritten (USD, billions)[2]

In addition to financial mobilization benefits, guarantees are well suited to address other dimensions of poverty. For example, guarantees have commonly featured in blended finance deals targeting social / health poverty dimensions, with a total deal value of $10.9 billion. One example is the Africa Medical Equipment Facility, a $150 million risk-sharing facility intended to support local financial institutional lending to small- and medium-sized healthcare providers across Sub-Saharan Africa. It features a $6 million first loss guarantee from the International Finance Corporation (IFC) via its Global Finance Facility to mobilize lending from local banks.

2 Note all charts provided by Convergence from its Historical Deals Database reflect all time periods unless otherwise stated.

Analysis by Convergence also shows growing guarantee provision for smallholder farming and food security outcomes ($3.1 billion in total deal value) and deals seeking to deliver improved resiliency in the face of climate change ($1.9 billion). At a more granular level, guarantees have frequently supported investments unlocking income growth and job creation (SDG 8 and SDG 1; $15.9 billion and $8.9 billion provision guarantee value, respectively; Figure 2). Concessional guarantees comprise 70% of all guarantees captured by Convergence, demonstrating the importance of affordable risk mitigation instruments in efforts to mobilize private sector capital in developing markets.

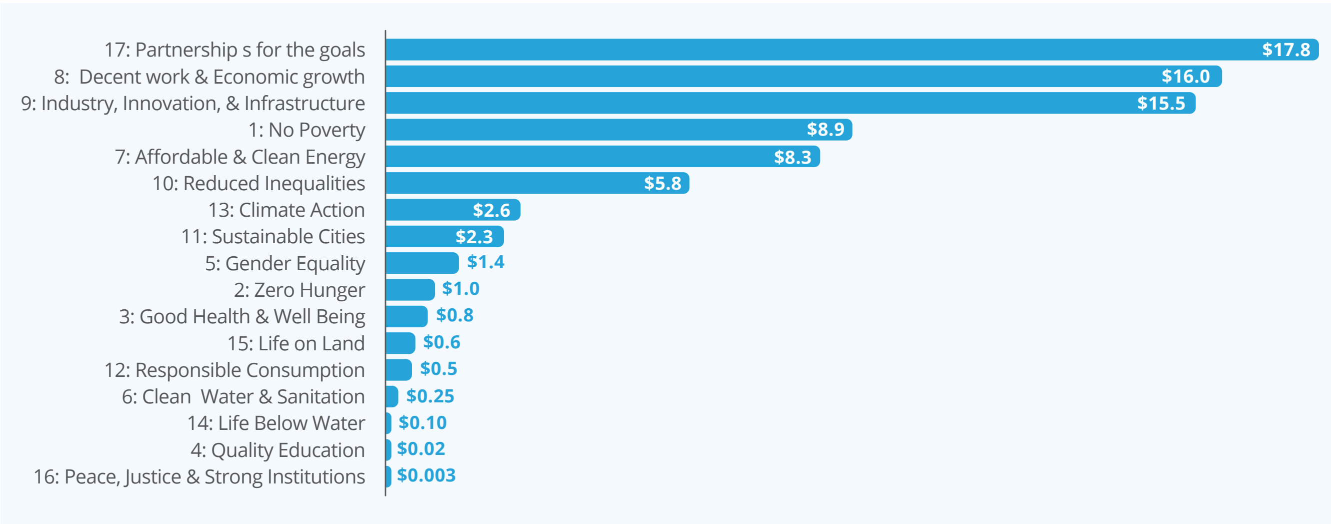

Figure 2: Total financing underwritten by guarantees by SDG alignment (USD billions)

According to Convergence data, the bulk of guarantees deployed in the blended finance market support investment into Sub-Saharan Africa in terms of the number of guarantees provisioned and aggregate guarantee value (113, $9.6 billion; Figure 3). [Reasons for this bias] include an established understanding of guarantee provision among deal sponsors and in-country guarantee personnel and the common perception among commercial investors of the need for risk coverage related to political and governance risks.

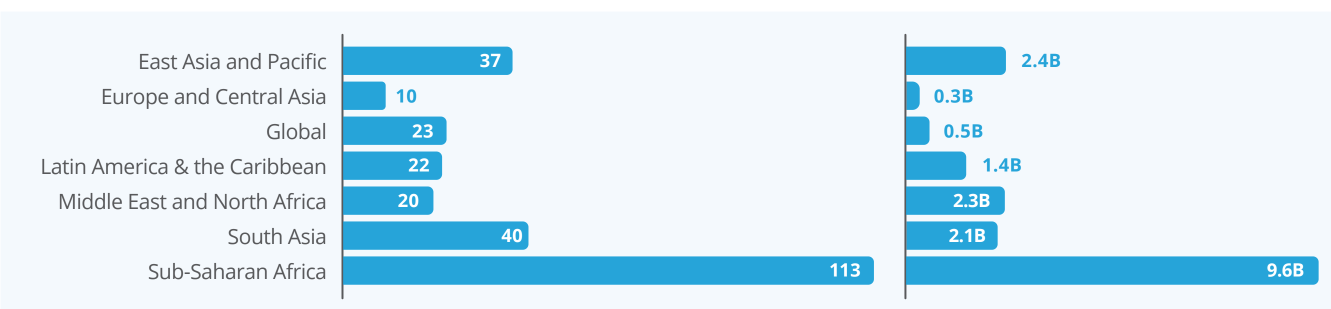

Figure 3: Number of guarantees issued by region and corresponding investment underwritten (USD)

RISKS AND WEAKNESSES OF GUARANTEE PROVISION

Increasing the provision of guarantees in the blended finance market faces four primary challenges;

i. guarantees currently do not qualify as ODA;
ii. guarantees add complexity to transaction design;
iii. the financial reporting procedures used by DFIs / MDBs limit guarantee provision; and
iv. linking impact to guarantee provision is challenging for development practitioners.

i GUARANTEES CURRENTLY DO NOT QUALIFY AS ODA

Under the current ODA framework, guarantees do not qualify as disbursed ODA unless they are called, in which case guarantors can use ODA funds to pay the guarantee. However, the historically low call rate effectively means no ODA is allocated to guarantees, significantly disincentivizing their use by government development agencies. While there are ongoing discussions to make guarantees ODA eligible, specialized guarantee issuing agencies, such as GuarantCo, offer donors a viable alternative in the interim, enabling them to utilize ODA funds to capitalize these institutions and their downstream guarantees. Also, ODA funding can be used to subsidize guarantee fees, a practice adopted by guarantee providers like Sida.

ii GUARANTEES ADD COMPLEXITY TO TRANSACTION DESIGN

Introducing a guarantee into a transaction structure adds complexity. First, the legal architecture of a deal changes once an additional party (guarantor) is incorporated. Deal terms now require agreement from an extra party as transaction negotiations become trilateral (lender, borrower, and guarantor). Due diligence procedures for stakeholders are impacted and lead to higher transaction costs, particularly for the borrower. This complexity is exacerbated by a lack of internal expertise on guarantee provision among most blended finance participants. There also remains much uncertainty on how to price guarantees properly. In underdeveloped markets, risk benchmarks are less defined, limiting the creation of a standardized pricing methodology for guarantees. With little evidence of market price or expected loss rates, the spectrum of concessionality is directly impacted, and determining what can be deemed concessional becomes increasingly challenging.

iii THE FINANCIAL REPORTING PROCEDURES USED BY DFIS / MDBS LIMIT GUARANTEE PROVISION

Many DFIs / MDBs report guarantees (whether funded or unfunded) using the same protocols as they do for loan provisioning. That is, the entire guarantee amount is recorded on the balance sheet, rather than only the expected loss reserve amount, removing one of the central incentives for guarantee provisioning. The reason is largely related to the prioritization by DFIs / MDBs to maintain their credit status (usually AAA) and financial regulations. To preserve their AAA ratings, DFIs / MDBs are required to back up their guarantees as they would loans with about 30% in equivalent equity. This allocation requirement restricts the lending headroom for guarantees. Furthermore, current financial regulations impose liquidity requirements on MDBs, meaning a certain share of assets must be high-quality liquid assets, to which guarantees do not qualify.

iv LINKING IMPACT TO GUARANTEE PROVISION IS CHALLENGING FOR DEVELOPMENT PRACTITIONERS

Lastly, linking development impact metrics to guarantee provisioning is not straightforward, particularly when the guarantee is not called and the guarantor disburses no funds. In addition, the guarantor requires multiple stages of reporting, both from the borrower and the guarantee recipient, which can increase transaction costs and reduce accuracy. Finally, guarantee providers often support local financial institutions whose primary focus is not impact generation. In these circumstances, strong impact reporting is often not forthcoming without the support of technical assistance to strengthen their governance and processes.

SCOPE OF THE REPORT AND GUARANTEE FOCUS

There is a wide range of guarantee types, all differentiated by the following: what kind of risk(s) the guarantee is intended to cover (commercial vs. political); the asset or instrument type receiving guarantee coverage (loan portfolio guarantee, loan guarantee, bond guarantee, balance sheet guarantee); the portion of the investment benefitting from guarantee coverage (full coverage vs. partial coverage); the contingent payment in question (principal and / or interest); and the type of guarantee recipient (sovereign vs. non-sovereign). Table 1 provides a brief description of these different guarantee characteristics. It is useful to note that guarantee classification and terminology used in the market may vary.

Table 1: Types of Guarantees

	TYPE OF GUARANTEE	DESCRIPTION
RISK TYPE	Commercial risk	• Protects against the risk of borrower default (counterparty risk, debt service obligation risk)
	Risk guarantee	• Covers a particular sub-risk that may lead to default or non-payment
	Credit guarantee	• Covers all potential risks that may lead to default or non-payment
	Trade finance guarantee	• Covers a bank's lending portfolio to stimulate the borrower's international trade activity
	Political guarantee	• Linked to risks associated with government actions that directly impact an investor's ability to derive benefit from an asset or which devalue an asset / investee • Commonly covers against war, civil unrest, government seizure, regulatory changes, inconvertibility
ASSET / INSTRUMENT TYPE	Loan portfolio guarantee	• Covers part or all of a lender's loan portfolio against default or non-payment
	Loan guarantee	• Covers a single loan against default or non-payment • Also known as a project finance guarantee in the context of project finance lending
	Balance sheet guarantee	• Leverages guarantor's high credit rating to expand the lending allowance of a financier • Underlying asset varies; project portfolio, single loan, equity
	Fund structure guarantee	• Covers an entire fund structure or specific risk-tier • Covers against default and non-payment risk at the end of fund term; may cover against losses
	Bond guarantee[3]	• De-risks the borrowing entity by backing principal and / or interest payment • Applied to entire issuance or riskier tranche
	Portable guarantee	• Covers a specific loan on behalf of a borrower to secure better conditions from the lender
	Equity guarantee	• Covers against asset devaluing
SHARE OF COVERAGE	Full guarantee	• Covers 100% of underlying investment
	Partial guarantee	• Covers less than 100% of underlying investment
BORROWER TYPE	Sovereign guarantee	• Extended to sovereign entities
	Non-sovereign guarantee	• Extended to private sector and subnational entities

3 Prior to 2013, bond guarantees could "uplift" the issuance credit rating, even above the sovereign rating ceiling. Following regulatory changes in 2013, credit uplifts are only tenable through full (100%) bond guarantees.

Due to the usage frequency and broader comparative evidence base, the scope of this report will focus on commercial risk guarantees (particularly loan portfolio guarantees, loan guarantees, balance sheet guarantees, fund structure guarantees, and bond guarantees issued to non-sovereign entities). While political guarantees are also an integral part of risk mitigation in blended finance, their incidence is largely a result of one institution, the Multilateral Investment Guarantee Agency (MIGA). To ensure the report's value for a breadth of stakeholder types, political guarantees will be excluded[4]. Lastly, most guarantees examined in this report are partial guarantees (covering <100% of underlying investment). Full or 100% guarantees are less common in the market because of the potential distortionary effects they produce. A full guarantee essentially removes default risk from the total risk equation. In riskier transactions in developing markets, this limits market scrutiny by lenders and disincentivizes borrowers to maintain or improve business practices to buoy their credit quality. In the long-term, this can hinder an obligor's ability to secure financing without a full guarantee.

4 MIGA provides credit enhancement guarantee products in addition to political guarantees, but only to sovereign borrowers which falls outside the purview of this report.

PART 2

GUARANTEE ISSUERS ACTIVE IN THE MARKET

Guarantee issuers in the blended finance market can largely be broken down into the following buckets: public development institutions (including development agencies, MDBs and DFIs), private sector issuers (including financial institutions such as commercial banks), and in select cases, other types of investors (e.g., impact investors and foundations). As evidenced by the chart above, guarantee providers in the blended finance market are dominated by public development institutions; MDBs and DFIs account for 44% of all guarantee providers, while development agencies account for 43% of all guarantee providers.

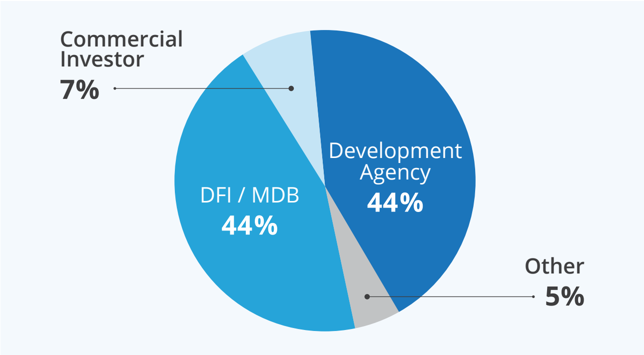

Figure 4: Guarantee providers in the blended finance market, proportion of guarantees provisioned

Development Agencies: Bilateral development agencies and multi-donor funds represent 43% of all guarantee providers. Generally, bilateral development agencies enjoy advantages when deploying guarantees as they are not obliged to maintain a credit rating. This differs from MDBs and DFIs, which have more complex internal governance structures, less flexibility, and lower risk tolerance to design, structure, and price guarantees.

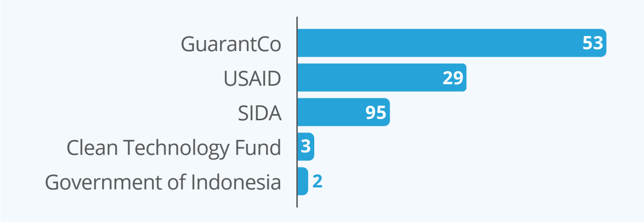

Figure 5: Development agencies and multi-donor funds providing guarantees by count

Sida and USAID (through its Development Credit Authority, now housed under DFC), have the longest track record amongst Development Assistance Committee (DAC) aid agencies. Sida has provided guarantees to 16 blended finance transactions[5], while USAID has provided 29 guarantees, far outranking other development institutions. When considering multi-donor funds, GuarantCo, a specialized guarantee provider which aims to mobilize more local currency financing into infrastructure projects using guarantees and a

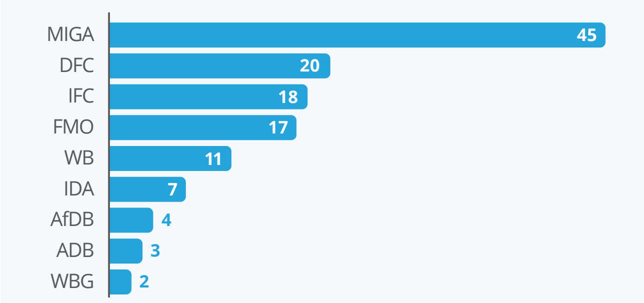

Figure 6: MDBs and DFIs providing guarantees by count

5 Note our League Tables capture guarantee deployment into blended finance transactions that align with Convergence's definition of blended finance. For example, Convergence does not consider pari passu risk-sharing agreements between two public institutions to be blended unless there is clear evidence of private sector mobilization. Therefore, not all guarantees provided by development agencies will be captured in this chart.

subsidiary of the Private Infrastructure Development Group (PIDG), has provided the most guarantees in the blended finance market (53 guarantees). Five donor governments (UK-FCDO, Swiss SECO, Australian DFAT, Swedish Sida, and Dutch FMO) are the primary shareholders of GuarantCo. Other examples of multi-donor funds that have extended guarantees in the market include the Clean Technology Fund (CTF) and Green Climate Fund (GCF).

Multilateral Development Banks: MDBs represent a considerable source of guarantees in the blended finance market; all major MDBs have set up a guarantee scheme. Top MDB providers of guarantees include the World Bank Group, as represented by several of its member organizations, including MIGA and the International Development Association (IDA). Other MDBs include the African Development Bank (AfDB), Asian Development Bank (ADB), and European Investment Bank (EIB). Nevertheless, guarantees represent a small share of overall MDB operations. A report by ODI (2014) finds that MDBs only provided a total of $37 billion in project (non-trade) guarantees between 2001-2013, representing just 4.5% of total lending approved by institutions over that same period. The underrepresentation of guarantees within MDB portfolios can be attributed to a number of factors, including internal accounting rules that require MDBs to provision guarantees in the same way as direct loans (even though guarantees are rarely called), which creates internal disincentives for MDBs to issue guarantees. In addition, MDBs must maintain their AAA credit ratings; research by OECD and the Milken Institute states that the performance metrics used by rating agencies encourage MDBs to act as commercial banks and focus on direct lending rather than extending guarantees. The underrepresentation of guarantees is evidenced when considering that in 2018, guarantees represented 8% of EBRD's commitments, 4% of IFC's, and 2.9% of IBRD's commitments.

Development Finance Institutions: DFIs are majority-owned by one or more national governments and include bilateral institutions (e.g., FMO), and multilateral institutions (e.g, IFC). DFIs serve a dual mandate of i) spurring development outcomes and ii) operating on a commercial basis for financial returns. As a result, DFIs represent a considerable source of guarantees in the blended finance market, including top providers such as DFC, IFC, FMO, and IDB Invest. Compared to development agencies, DFIs generally have more in-house expertise and capacity in development finance, making them well-equipped to deploy guarantees. However, like MDBs, DFIs operate as AAA institutions and thus face similar constraints when deploying guarantees. MDBs and DFIs often benefit from de-risking instruments themselves, provided by donor shareholders or development agencies, to optimize their balance sheets, take on greater risk while maintaining their credit rating, and increase private sector mobilization. As an example, Sida has partnered with DFIs and MDBs including ADB through risk transfer arrangements to increase lending capacity. Under these arrangements, Sida may guarantee repayment of principal for up to a certain amount of an MDB's portfolio, enabling the MDB to increase its lending activities to priority sectors.

Commercial investors: Guarantees are also a common, non-concessional, financial instrument provided by private sector institutions, as well as some public organizations (such as export credit agencies). There is not much data available on commercial issuers of guarantees in the blended finance market. This makes sense, given that the primary (but not sole) use of guarantees in blended finance is to provide risk coverage for transactions that otherwise would not be attractive to private investors.

Export credit agencies represent one of the most dominant providers of guarantees, including the Danish Export Credit Agency and COFACE (France's official export credit agency). Other top providers include the African Trade Insurance Agency (ATI) and the African Guarantee Fund for Small and Medium-Sized Enterprises. In addition, private sector companies such as AXA, Lloyds and Swiss Re provide insurance (such as political risk insurance) to projects in developing markets. Notably, we have also seen a growing opportunity for commercial guarantors and insurance brokers, such as the Texel Group, to play a role in optimizing the balance sheets of MDBs and DFIs. For example, the Texel Group works with MDB clients to provide non-payment insurance to increase their capacity to take on more risk and optimize their balance sheets. Lastly, by collaborating with development agencies, MDBs and DFIs, and financial institutions engage in risk-sharing (for example, using a 50/50 risk-sharing agreement) to extend more loans.

Specialized guarantee providers: Specialized guarantee providers such as GuarantCo, its subsidiaries InfraCredit Nigeria and InfraZamin Pakistan, and the African Guarantee Fund are funded by donor governments with the express purpose of extending guarantees to mobilize private investments into local markets. These guarantee providers are typically credit-rated by the Big Three agencies and pass their credit status to guarantee recipients.

Specialized vehicles offer several benefits. These vehicles do not need to obtain the same AAA rating as MDBs, so an A rating is often sufficient. As explained by CSIS, rating agencies will often allow specialized guarantee providers to be more leveraged than they would a bank at a given rating notch. It is usually only necessary for the guarantor to cover a few payments when a guarantee is called before the underlying obligation is restructured.

Lastly, the use of specialized guarantee providers allows donor governments more flexibility to deploy guarantees and circumvents the issue of ODA eligibility. In this way, donors can count funding contributed to entities like GuarantCo as ODA eligible and leverage more funding; GuarantCo can leverage 3x for each $1 of donor capital in the form of guarantees.

PART 3

SIDA DEVELOPMENT GUARANTEE PROGRAMME

HISTORY OF SIDA'S LEADERSHIP IN GUARANTEES

Sida has been a pioneer in providing guarantees for development purposes for the last 20 years, as evidenced by Convergence's league tables and similar sources (e.g., OECD).

The history of Sida's work in the guarantee space can be traced back to budget reforms undertaken by the Government of Sweden in the 1990s, following its financial crisis. As shared by Cedergren:

> *"There was a major reform of the budget law governing state finance, including how to handle guarantees. A new model was instituted, which is the same model that Sida operates under now. It's valid for all guarantees in Sweden and doesn't just apply to Sida guarantees. There are different agencies that can provide guarantees in the Swedish context - for exports, but also for housing, and now recently for green investment in Sweden."*

In 1995 the Swedish government requested Sida to study the role and function of credits in Swedish development assistance. Then, in 1996, a new financial instrument was proposed, and independent guarantees were launched to be used as an alternative to credits in certain cases. According to the study, the primary justification was that such guarantees might provide more 'development leverage' than credits, i.e., accomplish more 'development effect' per SEK. Subsequently, the Swedish government authorized two pilot schemes from 1999-2005.

In this context, the guarantees were mostly linked to Swedish exports, for example, export credit guarantees for projects in developing countries. The real momentum for Sida's guarantee program came in 2009, following the introduction of the Ordinance on Loans and Guarantees, which effectively gave Sida the mandate to provide risk-sharing to financial intermediaries via its AAA-rated guarantee model. The ordinance provided a framework for Sida's use of guarantees, including how guarantees can be implemented and governed. Sida spent the first few years of its guarantee program piloting and experimenting with the instrument. A turning point came following Sida's partnership with USAID through their Development Credit Authority (DCA). USAID had a similar mandate to Sida and provided a good opportunity for the agency to learn and develop more standardized guarantee products, including through staff exchanges, co-guarantees, and risk-sharing agreements. As shared by Christopher Onajin, Head of Portfolio Management at Sida:

> *"We had an opportunity to leverage from a partnership with USAID's DCA. They have a similar mandate; we'd had a memorandum of understanding since 2010 but hadn't done very much at the beginning, so we wanted to learn from their experience and build a pipeline from there. We began to do a lot of co-guarantees, so that's how it started from a couple of hundred thousand USD in extended guarantees. Now we've scaled up not only our co-guarantee activities with USAID, but also large volume guarantee facilities as lead guarantors or with other co-guarantors, to a current Sida guarantee portfolio of about $1 billion today."*

Sida's guarantee program has expanded significantly since 2009. Between 2011-2016, the portfolio grew substantially following close cooperation with DFC. Concurrently, the guarantee instrument was introduced to Sida's operational units to broaden their knowledge of its capacity to achieve objectives through greater capital mobilization.

SIDA'S PORTFOLIO TO DATE

Over the last 10 years, Sida's use of guarantees has grown considerably in size. The gross guaranteed amount rose sharply after 2011 and now exceeds SEK 10 billion, at a cost of about SEK 475 million of ODA for subsidies of fees for administrative costs.

At the end of 2021, Sida had 45 active guarantee contributions and total commitments within the guarantee framework of SEK 10.3 billion, having mobilized SEK 27.3 billion in mobilized capital, and made SEK 50.6 billion available for lending by guaranteed funds and local financial institutions almost three times greater than the guaranteed volume and 58 times larger than the cost in subsidies (ODA).

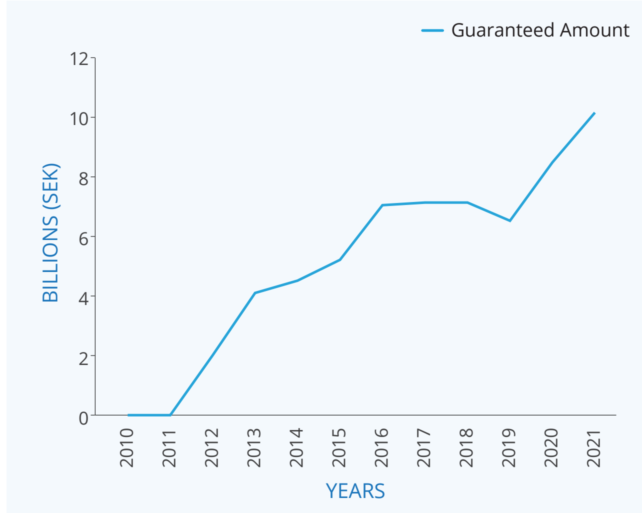

Figure 7: Sida's guaranteed amount over time (SEK)

Source: Guarantee Portfolio Overview per 31 December 2021, provided by Sida

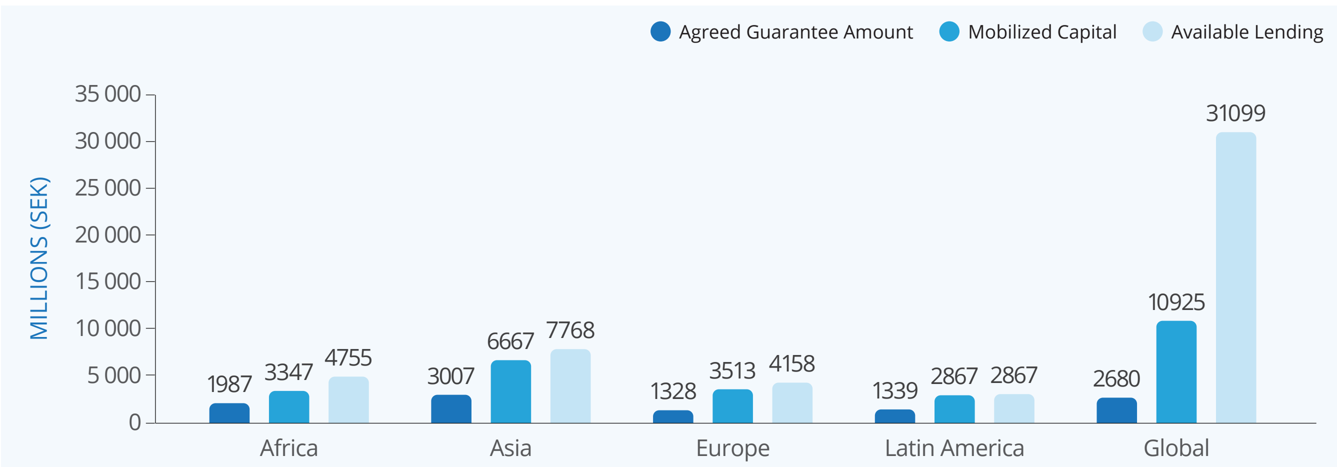

Figure 8: Sida's, agreed amount, mobilized capital & available lending per region 2021

Source: Guarantee Portfolio Overview per 31 December 2021, provided by Sida

EVOLUTION OF SIDA DEVELOPMENT GUARANTEE PORTFOLIO

Sida's development guarantee portfolio has evolved over time. It shifted from an ad hoc approach in which every guarantee deployed was different, to more standardized loan portfolio co-guarantees with USAID that shared risk with local banks that lacked collateral, to most recently adopting a focused approach on more complicated fund guarantee structures that emphasize private sector mobilization to fund development projects. As Erik Korsgren, Deputy Head of Partnerships and Innovation, Sida, notes:

> *"We have a different portfolio compared to a few years ago. Now, fund guarantees constitute the bigger part of our portfolio. While our stock of local country portfolio guarantees targeting local banks is still large, the majority are older, and in recent years we've contracted very few."*

Different factors are behind this evolution in the balance of Sida's development guarantee portfolio. One relates to increased demand over the past few years from impact funds seeking risk mitigation to mobilize private sector capital and achieve development impact alongside financial returns. The COVID-19 pandemic also played a role here, Korsgren notes:

> *"Creating a portfolio guarantee requires more proactive work that hasn't been possible during the pandemic, like reaching out to embassies and local banks and informing them about the possibilities of guarantees. With fund guarantees, fund managers hear about us and come to us and ask for the guarantees. It's been possible for us to still work increasingly with guarantees during the pandemic, but it's had an impact on the balance of the portfolio."*

Going forward, Sida continues to see value in traditional country-level portfolio guarantees; while they are smaller in size and thus not the solution to scaling private financing, they can more directly reach specific target groups relevant to Sida's impact goals. By giving incentives to local financial institutions to engage with and view historically underserved target groups, country-level portfolio guarantees are also important to advancing local institutional development in developing markets.

SPOTLIGHT: SIDA'S DEVELOPMENT GUARANTEE PRICING, RESERVE ACCOUNT, AND SUBSIDIES

The calculation of expected loss for the pricing of Sida's development guarantees is outsourced to the Swedish National Debt Office (NDO). Guarantee fees to cover the expected loss are deposited in a reserve account in the NDO. The program is backed by Sweden's AAA credit rating. Theoretically, if the account is negative, the Swedish government would borrow money to fund the deficit. Any claims on guarantees are financed by capital from the reserve account.

Sida can subsidise the fees on its guarantees if needed, but with fund guarantees, there's often no need for a subsidy and the expected loss charged can be paid for in full. Sida's subsidies typically target country-level portfolio guarantees due to the heavy influence of country risk on expected loss in vulnerable geographies, such that guarantee fees would be too high for local banks to accept within their business models. If fund guarantees are subsidised, Sida will negotiate with the fund manager and demand an open book approach, such that they can show exactly how large the subsidy needs to be for them to meet their financial requirements. They must also show that the benefits of the subsidy ultimately go to the borrowers and does not result in financial benefits for investors in the form of higher returns.

Generally, when determining the rate of concessionality for a given guarantee, Sida considers the following factors i) coverage rate (e.g., 50%) and ii) expected losses. The higher the coverage, the higher the expected loss rate and, therefore, the guarantee fee. As shared by transaction officers at Sida, there is no scientific process for calculating the Sida subsidy. Instead, Sida determines concessionality-based indicators such as borrowing levels at its partner financial institutions and other financials.

EVALUATING THE BENEFITS TO PRIVATE INVESTMENT MOBILIZATION OF DIFFERENT GUARANTEE USES:

Sida's portfolio includes four different types of guarantees

- Loan Portfolio Guarantee: covers several loans or investments in a financial institution's portfolio or could cover several loans from a fund's portfolio.
- Project Finance Guarantee: guarantees a single loan between a lender and borrower
- Balance Sheet Guarantee: guarantee whereby Sweden's AAA credit rating is used to release headroom in the balance sheet of the lender, thereby enabling the financier to increase lending
- Fund Structure Guarantee: covers a fund set up to attract capital for a certain purpose.

Sida's Guarantee Portfolio for 2021 consists mainly of loan portfolio guarantees, representing over 80% in terms of number of guarantees and almost 65% of the guaranteed volume. Project guarantees have never constituted a significant part of the portfolio. Sida can also customize guarantee structures on a case-by-case basis for specific purposes, such as the balance sheet guarantee with ADB and the fund structure guarantee with the Bill and Melinda Gates Foundation in the health sector. In 2021, four of the new guarantees agreed upon had a fund structure.

Global loan portfolio and country loan portfolio guarantees have mobilized the greatest amount of capital by volume, aligned with their frequency of use.

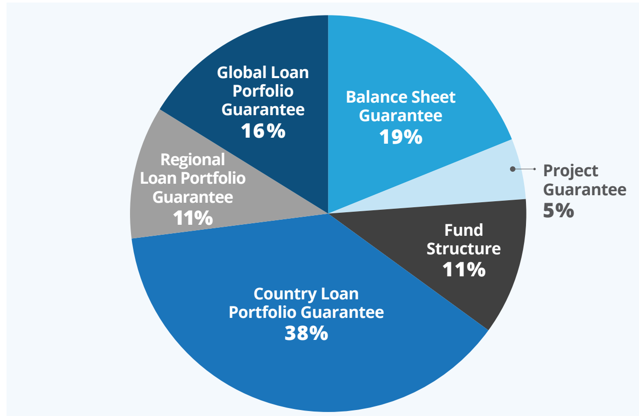

Figure 9: Agreed guarantee amount per type of guarantee

Source: Guarantee Portfolio Overview per 31 December 2021, provided by Sida

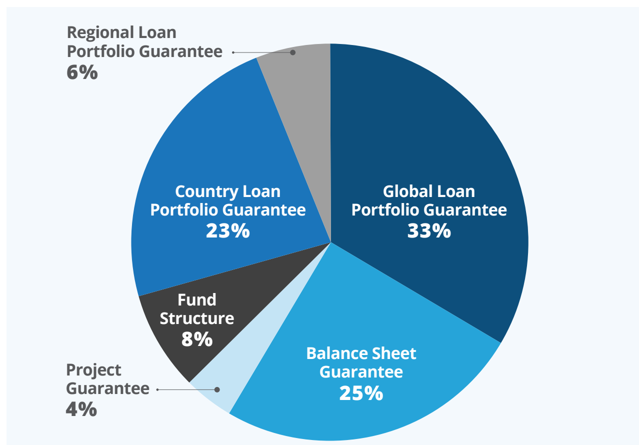

Figure 10: Mobilized capital per guarantee type

Source: Guarantee Portfolio Overview per 31 December 2021, provided by Sida

SIDA'S GUARANTEE PORTFOLIO GOING FORWARD

Going forward, Sida will continue deploying its full suite of products, with a continued emphasis on its pari passu loan portfolio product, which remains one of Sida's most standardized and simplified products. It will also maintain its ability to issue customized guarantees when necessary. At the country level, Sida will continue to grow its bank portfolio guarantees. As shared by Jesper Skoglund, Senior Transaction Manager at Sida:

> *"At the country level, what we want to see is more bank portfolio guarantees and more cooperation with local financial institutions and our embassies. At the same time, we also see a need for complex structures, particularly when we issue guarantees to support the launch of investment funds with a regional or global investment mandate, in thematic areas such as environmental sustainability and sustainable economic development."*

Beyond these considerations, Sida is also working on expanding and integrating the deployment of guarantees across Sida's entire agency, including across all regional departments. This means expanding the mandate held by Sida's Technical Guarantee Unit to equip other departments to issue guarantees as they do other instruments. Sida is currently in the process of integrating this change. Including regional departments in this process makes sense; Swedish Embassies have a better understanding of the local context of their markets, including target client groups and which financial instruments are most appropriate.

HOW SIDA ASSESSES ADDITIONALITY

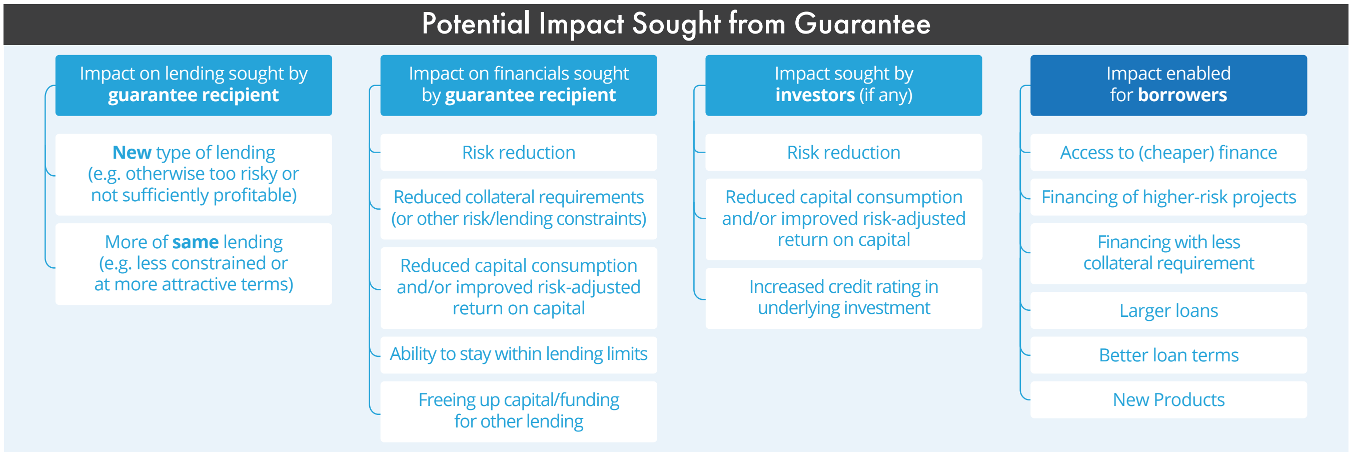

Figure 11: Schematic of financial additionality of Sida guarantees (provided by Sida)

Sida's Technical Guarantee Unit works closely with other teams, including the agency's regional teams and global economic team, to determine financial and developmental additionality.

Each guarantee is evaluated on three kinds of additionality,

- i development additionality assesses the relevance and alignment to the objectives and strategiesthe government has decided on for Sida's operations with regards to its theory of change for poverty alleviation,
- ii financial additionality assesses whether a contribution would be implemented with financing from the financial market even without the support of a development guarantee, and
- iii value additionality assesses how, for example, Sida's dialogues, policies, and values can impact a guarantee recipient or its borrowers to promote policy and value change in the local market.[6]

As indicated in the impact schematic above, the financial additionality of the guarantee further depends on the specific goals of the transaction. For example, this could be to i) increase current lending or ii) introduce new lending to riskier sectors or clients. Beyond that, recipients may benefit from guarantees to achieve several goals, including reducing the need for high levels of collateral, reducing risk, or freeing capital for other lending.

While financial additionality is primarily assessed in relation to the market, Sida also considers how a guarantee may benefit investors, for example, co-funders or commercial investors in a fund structure. As revealed by Sida, targeting risk reduction for certain investors in a fund structure can be difficult. Firstly, this introduces an added complexity for fund managers. Secondly, while Sida aims to create as much strategy aligned impact as possible, the agency sometimes needs to balance mobilization potential against impact alignment. As shared by Skoglund:

> *"If we introduce requirements that are too limiting or structure the guarantee in a way that is too complex, the guarantee might lose its appeal. The preference from an investor point of view will often be simplicity and flexibility. I don't think that we have a clear playbook on how to prioritize between small-scale initiatives with perfect focus and large-scale initiatives with acceptable focus."*

Sida also considers guarantees to be additional to investors if it increases the risk appetite of its investor. For example, enabling a DFI or MDB to sit in a riskier position in a funds' capital structure (such as in a subordinate or first-loss position) via the provision of a guarantee is also seen as additional.

Lastly, Sida also considers the end impact for borrowers. As outlined above, this could be access to cheaper finance, financing of higher risk projects, financing with fewer collateral requirements, larger loans, better loan terms, or new products.

6 Sida Analysis Report of Guarantee Additionality

INFLUENCE OF SIDA'S DEVELOPMENT GUARANTEE PROGRAMME

Sida's pioneering work in the field of guarantees has inspired other governments to develop guarantee schemes for development purposes. Recently, the Government of Denmark launched a four year pilot guarantee facility with a total guarantee frame of DKK 2 billion and has collaborated closely with Sida on developing their guarantee program. One primary consideration here was where the guarantee program would be housed, given that Denmark's development office, DANIDA, unlike Sida, is not an organization but a brand for the Danish Ministry of Foreign Affairs' development efforts. Ultimately it was decided that the guarantee program would be housed under Investment Fund for Developing Countries (IFU), the Danish DFI. Given that IFU is a DFI with a commercial mandate, some concerns were raised around the development impact and governance of the guarantee program. As a solution, two distinct features are being incorporated into the program: i) the guarantee program will operate as a separate vehicle, apart from IFU's general balance sheet, and ii) the Ministry of Foreign Affairs will fund any deficit for their administration costs not covered by guarantee fees during the start-up period. The pilot programme will be made in close collaboration with Sida; IFU will collect learnings and build experience and competence from the cooperation with Sida. For example, IFU will benefit from Sida's strong capacity in origination and risk assessments. As shared by Cedergren:

> *"It was agreed that during the pilot period we would work in partnership with Sida, issuing co-guarantees and relying on the Swedish National Debt Office's risk assessments while we determined how to complete risk assessments on our own, and whether that capacity should exist within IFU, the Ministry of Finance, or the National Bank, since there's no equivalent to Sweden's National Debt Office; national debt is managed politically by the Ministry of Finance, and accounting-wise at the National Bank."*

EVALUATION OF SIDA'S DEVELOPMENT GUARANTEE PROGRAMME

Sida's development guarantee programme has faced three main challenges in its development and operation:

1. a lack of familiarity with and capacity for guarantee deployment across different Sida teams;
2. difficulties in impact reporting and monitoring, and
3. regulatory restrictions on guarantee deployment.

1. LACK OF FAMILIARITY WITH AND CAPACITY FOR GUARANTEE DEPLOYMENT

A lack of familiarity with and capacity for guarantee deployment was a significant problem faced by Sida due to four main factors:

- i guarantees were not well understood by teams across Sida, which were more accustomed to grant provisioning;
- ii working with guarantees required a financial skill set that was not available within Sida;
- iii the appraisal and agreement negotiation of guarantees takes more time than the corresponding processes for grant-funded transactions; and
- iv Sida's internal systems were designed for grant-funded transactions.

Firstly, at the outset of Sida's guarantee programme, the guarantee instrument was not well understood by the different teams within Sida. Sida's embassy-linked country teams, in particular, saw guarantee interventions as something separate from and not relevant to their normal country aid programmes, and because of Sida's decentralized organizational structure, it was often difficult for those in Sida's headquarters to direct the activities of embassies on the ground. The fact that guarantees don't involve aid money being dispersed also initially proved challenging. Staff are required to show how they are dispersing their aid budget, potentially contributing to a de-prioritization of guarantees. There also had to be a shift in thinking regarding which types of organizations Sida worked with; most of Sida's grant support went to public entities in developing countries, civil society organizations like NGOs, and UN bodies rather than financial institutions.

Secondly, some of this internal hesitation and questioning about the guarantee programme can be attributed to the professional skillsets prominent within Sida, with many having educational backgrounds in areas like political science rather than finance or economics. As Cedergren observes:

> *"Sida was a classic development organization regarding the skills that it had at the start of its guarantee programme. Guarantees require a slightly different skillset. You need to have people with a background in finance and people with a background in development, which is rare, and they need to mix and learn from each other, which can be challenging; Sida never really could afford to hire mid-career finance professionals."*

Sida thinks that this challenge has been addressed over time and offers positions for finance sector talent interested in contributing to the SDGs.

Thirdly, internal questioning over the guarantee instrument within Sida also resulted from guarantees having higher transaction costs compared to grants. While grant agreements are relatively easy to negotiate and can be completed within several weeks or months, guarantee interventions can take years to finalize and carry a higher risk of not reaching implementation. Sida's internal systems being ill-prepared for the shift to guarantees complicated this further. Since all their internal systems, from IT to results reporting to accounting, were designed for extending grants, they required revision given the different administration requirements for guarantees. This took time, and Sida was criticized by external auditors over this issue.

Finally, estimating the required sizes of guarantee subsidies for incorporation into Sida's budgetary planning also proved challenging since, at the outset of the guarantee provision process, there is no clarity over what the subsidy requirement of a guarantee will be. As Cedergren notes:

> *"You first must figure out the size of the guarantee, complete the risk assessment, set the price, negotiate with the guaranteed party, and then assess only at the end the level of subsidy that may be needed in higher risk, higher impact geographies. This can be difficult for donor organizations to manage."*

The net result of the lack of familiarity with and capacity for guarantee deployment was that when guarantees were deployed, Sida's country teams did not initially look to complement them with capacity building, institutional strengthening, or technical assistance to lenders, and so the strategic and holistic perspective that could help guarantees achieve Sida's impact goals was lost. Also, the level of guarantee deployment has remained below the ceiling set by the Swedish Ministry of Foreign Affairs, which now stands at SEK18 billion. Fortunately, Sida has addressed these issues by informing and educating teams across Sida about the functionality and use of guarantees, and their benefits compared to instruments with fewer transaction costs, Korsgren notes:

> *"One learning is that we needed to improve communication and increase learning activities for the country teams for them to understand the usefulness of guarantees, and how they can be used as an integrated tool in a country strategy implementation program, and how to package them with necessary technical assistance. Without local capacity, the financing will not be sustainable."*

Finally, educating teams across Sida about guarantees will also be key to supporting impact target areas for which Sida receives fewer proposals from financial institutions, like biodiversity and agriculture, because it will enable Sida's teams to more proactively market Sida's guarantee programme externally.

2. DIFFICULTIES IN IMPACT REPORTING AND MONITORING

Connected to Sida's lack of internal buy-in to the guarantee instrument was the challenge of reporting and monitoring the impact of deployed guarantees. Sida's institutional focus on poverty reduction guides the strategic deployment of its guarantees. It is subdivided into various country and thematic strategies that in and of themselves can be restrictive in terms of which guarantee proposals can be selected, regardless of quality. Sida's requirement for sponsors to align their investment with specific impact priorities can be challenging in certain scenarios, such as connecting risk-sharing with banks to poverty reduction. This problem can partly be traced to inadequate impact monitoring frameworks being present in Sida at the beginning of the guarantee programme, but provisioning guarantees outside of least developed countries can also make it harder to prove the theory of change, Mattias Lindström, Blended Finance, Sida, notes:

> *"We really must show the relevance of an intervention to poverty reduction to get an approval. However, the theory of change is sometimes not that clear; it can become vague, especially if we're not dealing with a guarantee targeting the world's poorest countries. We need more evidence and must show better cases of poverty reduction resulting from our guarantees; this would make it easier for us to get more and faster buy-in internally. This means that we also need impact results from our guarantees, but sometimes that follow up and monitoring is not easy; it's easy to see how our partners on-lend to SMEs, for example, but not how many people become less poor because of this."*

While Sida's term sheets with commercial banks entering into risk-sharing agreements are structured to state the underserved sectors or beneficiaries targeted – and Sida looks to ensure that the guarantee coverage can only be used for that purpose – working with private banks to get reporting on development impact can be difficult. Often banks provide data on the number of loans made, but not how they are used or if they lead to new employment. Meanwhile, the lack of a cohesive interplay between development and finance skillsets within Sida is also made apparent in this context, as Onajin observes:

> *"The Technical Guarantee Unit is meant to provide technical expertise in terms of guarantees, but we don't have in-depth expertise in terms of measuring development impact, since our professional backgrounds are mostly from banks or other financial institutions."*

Poor impact monitoring is also connected to the problem of the coverage of deployed guarantees being insufficiently utilised. Outside of choosing a partner whose interests are ultimately not aligned with Sida's impact goals, low utilization can also result from a failure to sufficiently interact with the guaranteed party to ensure take-up throughout the organisation, Onajin notes:

> *"We might negotiate with management in a bank's head office, but if management isn't rolling out the ability to use the guarantee instrument to its branches, or if the incentives are not there for the branch manager or loan officer, nothing will happen. Amongst ourselves, we need to actively talk to the guaranteed party. Sometimes, assumptions were made at the beginning that simply didn't prove to be correct."*

3. REGULATORY RESTRICTIONS ON GUARANTEE DEPLOYMENT

Regulations on deploying Sida's guarantees immensely limited the programme as EU state aid legislation restricts the use of state-backed guarantee interventions to EU-domiciled funds, which constitutes a growing share of Sida's portfolio. This problem was particularly acute when Sida subsidised its guarantee fees, which its external auditors raised. Sida has addressed this issue by including a paragraph in its agreements with funds receiving subsidised guarantees, which forces them to show that any subsidy or benefit that can be attributed to the guarantee must be forwarded to the ultimate borrower and that they should, on request, be able to account for that.

Sida's ability to guarantee equity risk is under review, but the difficulty of calculating the expected loss has historically hindered Sida's ability to use equity guarantees to meet its impact goals, Korsgren notes:

> *"Equity is often demanded in many circumstances, but presently we don't guarantee equity investments because we have not had a solid method for pricing such guarantees, which limits us to guaranteeing credit risks. The challenge is to find a way to calculate the expected loss on an equity guarantee."*

This problem is particularly apparent in geographies like Sub-Saharan Africa, where there is a widespread need for early-stage equity investment.

CASE STUDY: The USAID-DCA / DFC Guarantee Programme

SPOTLIGHT: THE USAID DEVELOPMENT CREDIT AUTHORITY

USAID's DCA, which allowed USAID to deploy up to 50% risk-sharing guarantees with local financial institutions in developing markets to catalyze SME-lending, was established in the late 1990s after substantive credit reform in the US at the start of the decade. Prior to the Credit Reform Act of 1990, USAID's programme of direct loans and very generous loan guarantees to developing countries had been criticized for uneven performance, and the full cost of loans and guarantees had to be budgeted on an annual basis. The Act stated that the true cost of the loans and guarantees was the amount not paid back, and the amount of claims needed to cover the liabilities inherent in guarantees (i.e., the expected loss). As such, USAID would only have to provision for the expected loss rather than the full cost of the loan or guarantee, which created a significant budgetary advantage to using loans and guarantees to support development. After some initial doubts about USAID's capacity to issue and manage guarantees, the DCA was established after the Foreign Assistance Reform Act of 1997. As John Wasielewski, Founding Director of the Office of Development Credit, USAID, recalls:

> *"At the time the DCA was established at USAID, the development finance community was against guarantees, on the basis that they disrupted markets; the preference was for direct loans. When Congress allowed USAID to deploy US Treasury-backed guarantees and the DCA was established, we stated that we would not be guaranteeing 100% of what people do, but would pursue true risk-sharing, and that's what makes it unique. We were guaranteeing 50% pari passu of realized loss. We introduced what we believed was a reformed approach to using guarantees. Rather than the traditional DFI model of financing development projects with imported currency, we were using local financing already present in developing markets to solve local problems by boosting access to finance. This was an approach nobody else was taking at the time, but now Sida, GuarantCo, and others have followed our lead."*

The main challenge faced, Wasielewski continues, was building acceptance of the guarantee instrument within an organization where risk-sharing with local banks was contrary to the prevailing culture, so proponents sought to educate teams about the functioning and advantages of guarantees compared to direct loans. From 1999 to 2017, the DCA issued 542 guarantees in 74 countries, resulting in over 250,000 loans with a 2.4% default rate.

SPOTLIGHT: THE UNITED STATES INTERNATIONAL DEVELOPMENT FINANCE CORPORATION

In January 2020, USAID's DCA was officially transferred to the newly operational US DFC, which replaced the Overseas Private Investment Corporation under the provisions of the BUILD Act of 2018. DFC deploys different types of guarantees, including the DCA-style risk-sharing partial loan guarantees extended to financial institutions or other financial intermediaries, usually on a percentage basis with the client. DFC's direct loans and its partial loan guarantees are its two primary debt financing products, typically extended with a tenor between five and twenty-five years, with sizes ranging from $1 million to $1 billion.

SPOTLIGHT: THE MISSION TRANSACTION UNIT

DFC's Mission Transaction Unit (MTU) incorporated the functions of the former USAID DCA, but can now access the broader range of products within DFC's toolkit. As Megan Rapp, Managing Director, Office of Development Credit, MTU, and Maryam Khosharay, Deputy Vice President, Office of Development Credit, MTU, recall:

> *"We transitioned to DFC in such a way that we could continue working with USAID's ground presence and our partners who we support with guarantees, as well as support USAID's access to all DFC tools. As a result of our work with USAID, we often take on smaller and riskier products, and continue to work very closely with low-income countries, with partnerships with many local banks and financial institutions. MTU is housed in the Office of Development Credit and works predominantly but not solely with USAID, supporting local USAID missions in building transactions that leverage smaller amounts of traditional USAID donor assistance (now restricted to grants and contracts) into guarantee facilities that can mobilize local capital into development projects. This is how MTU is catalytic; guarantees and loans cost less to provision internally than grants."*

Regarding the pricing of their guarantees, Rapp and Khosharay note that guarantee fees are not dictated and must be aligned with the market, which cannot be distorted under the provisions of the BUILD Act; conversations are typically held with local banks about how their risk write-ups in their internal spreads are being reduced because of the guarantee. The main challenges faced at MTU, Rapp and Khosharay note, relate to the difficulties in integrating within a new organization, and the impact of the COVID-19 pandemic on their ability to directly connect with partners in-person and on the ground.

CASE STUDY: GuarantCo

Figure 12: GuarantCo structure

GuarantCo is one of the six entities within PIDG, which collectively aim to prepare, develop, or finance commercially viable and developmentally sound infrastructure projects. GuarantCo was established in 2005 to catalyze local currency investments into infrastructure projects and develop local capital markets using guarantees. GuarantCo's primary objective is to credit enhance infrastructure projects to an acceptable level to enable local currency credit investors (e.g., banks and institutional investors) to extend longer-term debt. In addition to helping align the risk appetites of local currency investors with projects, the use of guarantees also allows for efficient leverage of capital – GuarantCo can leverage 3x for each $1 of donor capital in the form of guarantees.

GuarantCo is funded by the UK-FCDO, Swiss SECO, DFAT, and Sida. The Dutch government is also a shareholder through its development bank, FMO. Additionally, GuarantCo also has received callable funding from Agence Française de Développement (AFD), Global Affairs Canada, and FCDO. GuarantCo has consistently maintained a strong credit profile: A1 by Moody's and AA- by Fitch.

GuarantCo provides credit guarantees covering debt financing for projects, which amounts to between $5-50 million, for a maximum tenor of 20 years. GuarantCo prices its guarantees based on transaction risk decided on a project-by-project basis. Fees are determined by several factors, including GuarantCo's due diligence findings, the transaction's financial structure, and country and borrower risk. GuarantCo primarily supports private sector companies undertaking greenfield developments or expanding existing facilities but also considers public projects that operate commercially. GuarantCo targets the OECD DAC list of "low and lower middle-income countries" for its projects. Its country and sector exposure limits are allocated based on PIDG's overall portfolio distribution across its five entities and their relevant pipelines and abide by PIDG's investment policy and risk appetite framework.

In May 2022, GuarantCo's run-rate portfolio size reached $1 billion. The organization is active in over 20 countries, across Africa and Asia. To date (Q2 2022), the organization has mostly supported multi-sector projects (37.5%) and power and energy supply projects (21.7%). Since its inception in 2005, GuarantCo has guaranteed bonds and loans enabling $6 billion of total investments and $5 billion of private sector investment giving 43 million people improved access to infrastructure and creating around 327,000 jobs in Africa and Asia at the end of 2021 (PIDG Annual Review 2021).

GuarantCo's operations have evolved significantly since its launch. While GuarantCo spent its early years pioneering the use of guarantees to mobilize debt finance, it has now standardized its product offering as guarantees have become more widely sought after. As noted by Philip Skinner, Managing Director at GuarantCo, the standardization of product offerings has enabled operations to scale:

> *"We have developed templates and in-house trainings so that we can structure transactions more efficiently to better meet the needs of our clients and ultimately do more in a shorter timeframe."*

Moreover, GuarantCo has set up two local guarantor facilities to date to better scale operations within developing markets. In 2017, GuarantCo set up InfraCredit Nigeria alongside the Nigeria Sovereign Investment Authority. To date, InfraCredit has mobilized N 110 billion in local currency from pension funds and led eight infrastructure projects towards financial close and is rated AAA by Augusto & Co and Global Credit Ratings.

In 2021, GuarantCo set up a new initiative, InfraZamin Pakistan, providing PKR 8.25 billion in a contingent capital facility, alongside PKR 2.475 billion in equity from InfraCo Asia Investments and $1 million from PIDG Technical Assistance. InfraZamin seeks to address the gaps in local infrastructure financing through increased use of credit guarantees and is rated AAA (by PACRA).

Going forward, GuarantCo sees huge potential to scale guarantees for economic development. Alongside tapping into traditional public funding to support their capital base, one strategy is to mobilize capital from the commercial insurance market; to syndicate risk and allow it to do more transactions and write larger guarantees.

CASE STUDY: African Guarantee Fund

The African Guarantee Fund (AGF) is a non-bank financial institution established in 2011 by the Government of Denmark (represented by DANIDA), the Government of Spain (represented by AECID), and the AfDB. The Fund has since received support from the AFD, the Nordic Development Fund (NDF), IFU, KfW, Global Affairs Canada (GAC), the French development finance institution PROPARCO, and USAID's West Africa Trade & Investment Hub (WATIH). Sida has also supported AGF with a re-guarantee. AGF aims to improve access to finance for African SMEs through its selection of guarantee products. This includes guarantees on loans to specific individual borrowers and groups of unspecified borrowers within a portfolio, equity guarantees, and bank fundraising guarantees.

According to Jules Ngankam, AGF's Group CEO, AGF's portfolio historically focused on individual loan guarantees. Loan portfolio guarantees were developed to target MSMEs, underserved by banks, given the small loan sizes sought and the time involved in completing loan and risk appraisals. By providing guarantees on a portfolio basis according to certain criteria, banks could select exactly which loans they wanted to include within the portfolio without needing full appraisals. AGF's loan portfolio guarantees thus tend to target micro and small enterprises, while their individual loan guarantees target medium- sized companies with larger ticket sizes, where full appraisals are conducted.

AGF has been successful in accommodating different development agencies, with different development priorities, as shareholders. They did so by including incentives in their loan portfolio guarantees to encourage banks to target segments of SMEs with specific impact targets, such as climate and gender. These incentives involve offering discounts in their guarantee pricing, larger risk coverages, or technical assistance if the guaranteed banks prioritise funding SMEs that meet certain impact criteria.

AGF's normal practice with its loan portfolio guarantees is to restrict banks to place only new facilities under their coverage. This was to prevent the risk of banks prioritizing existing, underperforming, facilities for coverage. However, AGF's COVID-19 guarantee facility, launched in response to the COVID-19 pandemic, incentivized banks to restructure their facilities to prevent SMEs from going bankrupt. Under this facility, banks could include existing portfolios under AGF's coverage.

The main challenge that AGF has faced, Ngankam observes, is finding ways to encourage banks to pass on the benefits of their guarantees to SMEs, such that price discounts or other incentives are reflected in their interest rates. As Ngankam notes:

> *"When it comes to access to finance, there are two challenges: availability and affordability. With the loan guarantee product, we can address the challenge of availability, to ensure that financing is more available to SMEs. But is it affordable? This is where the bank fundraising guarantees can play a critical role, by helping banks to mobilize long term capital at lower cost in order to on-lend to SMEs at a lower interest rate."*

While some guarantee providers have fixed prices regardless of the borrower or lender, and others offer very subsidized prices, AGF's pricing is risk-based, derived from a risk assessment scoring methodology. This methodology involves a borrower assessment for individual guarantees and a lender assessment for portfolio guarantees (since banks select which loans to include in the portfolio, their capacity to do so effectively must be assessed). The assessment also includes a transaction assessment and a country assessment. Finally, AGF can guarantee equity, covering the risks of bankruptcy and of equity investors exiting below the initial investment value invested (AGF cannot guarantee returns above this initial value). The main challenge here, Ngankam notes, is the underdevelopment of Africa's equity markets, with equity investors in Africa being limited in number compared to debt investors, which limits the volume of AGF's equity guarantees.

PART 4

KEY LEARNINGS & PRACTICAL GUIDANCE

The Sida guarantee programme has sought to support development in emerging economies in four key ways:

- (i) by producing development impact through an identifiable theory of change aimed at poverty alleviation;
- (ii) by mobilizing private capital while avoiding negative market distortion;
- (iii) by creating value through policy and regulatory changes in improving the capacity of domestic markets and local institutions; and
- (iv) by innovating mechanisms to use guarantees to promote areas like clean energy production and climate solutions.

The discussion of Sida's guarantee programme and the experience of other guarantee providers, as explored in the case studies presented, offers three main learnings for other organizations considering launching development guarantee programmes:

1. increasing cooperation with other guarantee providers;
2. building guarantee programs that maximize leverage by exploiting donor countries' credit ratings; and
3. remaining flexible in the strategic approach guiding guarantee deployment.

1. Increasing cooperation with other guarantee providers

As noted earlier in this paper, the scaling of Sida's development guarantee programme was significantly impacted by the cooperation agreement signed with USAID and the launch of its programme of co-guarantees. USAID's influence upon Sida at this point in the history of its guarantee programme reached across almost every facet of its operations, Erik Korsgren, Deputy Head of Partnerships and Innovation, Sida, notes:

> *"We copied lots of USAID's processes and contract templates, and how they organized themselves with an origination team and a back-office team. We then expanded upon USAID's guarantee contract templates based on our learning, to fit our programme, but without USAID's initial help it would have been much harder to scale our guarantee programme quickly, as we did during those years."*

Development agencies looking to build guarantee programmes can therefore learn from the experience of others by forming partnerships with established guarantee providers. Indeed, as noted earlier in this paper, Sida's experience has been key to the establishment of the Danish development guarantee programme based in IFU. As Cedergren observes:

> *"We would never have come this far without the support of Sida, just like Sida greatly benefited from their partnership with USAID. We've benefited from Sida's strong capacity for origination, and we also initially relied on their risk assessments."*

Beyond simply adopting the processes and operational functioning of the mentor organization, development organizations can also benefit from such a collaboration by identifying areas in which their emerging programme can diverge from the path set by the mentor organization and develop to meet their own unique strategic goals. With regards to Sida, Cedergren recalls:

> *"There are also differences in how the guarantee programmes developed over time. The USAID programme used guarantees that were more standardized and had a much quicker process, such that they could complete a guarantee in less than six months. That could never happen at Sida, as Sida tends to go into more complicated structures with a high mobilization factor, or that have a very specific impact target, beyond just SME-focused guarantees with local financial institutions, which is what USAID was providing at the time, deploying the same guarantee repeatedly in different countries. The Swedish guarantee programme has developed very dynamically. They're still experimenting, but they've shown the breadth of what you can achieve with guarantees."*

Looking beyond the benefits of sourcing mentors when developing a guarantee programme, greater collaboration can also address a key challenge identified by multiple respondents; that is, the lack of standardization and replication with guarantees, with good examples of what has been done with the instrument not being replicated by others within the development community. As John Wasielewski, Founding Director of the Office of Development Credit, USAID, reflects, this relates to both innovations with the instrument itself but also how parties cooperate in structuring them:

> *"Why are there not more co-guarantee arrangements that split the risk between multiple guarantors? Donor guarantors shouldn't be competing in markets where they have the same objective. We must work with each other if we're ever going to approach scale and actually produce market changing effects. We, the guarantee community, also need to take the time to find out the kind of technical assistance needed to produce more efficiencies in lending and borrowing, which can make guarantees even more effective."*

However, some of our respondents also note that while collaborating with other guarantee providers can be of value from the perspective of sharing learnings and increasing the size of the guarantee, it is not without its risks. For example, formal co-guarantee structures can benefit from increased administrative and operational capacity advantages. However, such partnerships may also hinder an institution's need to immediately develop internal capacities to handle guarantees, or they might face the challenge of differences between the rules and requirements governing guarantee providers in different countries potentially complicating the completion of guarantee transactions, with questions as to how these differences would be resolved and monitored in a legal agreement, and what would happen in the event of a future disagreement on whether agreed upon conditions were satisfied. Fundamentally, what is important when collaborating with other guarantee providers on a transaction is ensuring that each guarantee provider has a comparative advantage, Megan Rapp, Managing Director, Office of Development Credit, MTU, and Maryam Khosharay, Deputy Vice President, Office of Development Credit, MTU, note:

> *"We see the value in partnering up. However, it's important not to partner just for the sake of partnership, but because it's a value add, either by being able to increase the amount of guarantee or the loan, or because there's a skillset that one partner has that another doesn't. Each partner must have a comparative advantage. Where it doesn't work is when two of the players in the partnership have the same comparative advantage, which would result in parties arguing over terms rather than adding value."*

Of course, one prominent approach facilitating multi-donor collaboration in guarantee deployment is establishing or investing in intermediary guarantee providers like GuarantCo or the African Guarantee Fund, which can leverage limited amounts of donor capital and efficiently scale local risk-sharing capacity by independently targeting a regional investment ecosystem, as opposed to a single bank or financial institution. However, the trade-off here is that regional intermediaries may become less country-specific and tailored to the requirements of a particular market, and the connection between donors' impact goals and their goals on achieving leverage and scaling may be reduced, since they have less control.

2. Building guarantee programmes that maximize leverage by exploiting donor countries' credit ratings

Another learning from Sida's experience is the leverage that accrues from guarantee programmes being structured to benefit from donor countries' credit ratings. As Cedergren notes:

> *"The potential lies in getting ministries of finance to properly organize their guarantee programmes with a solid foundation in their economic and budgetary frameworks, and then building a development guarantee programme on that, which can benefit from donor countries' AAA credit ratings, such that provisioning with a cash collateral reserve is not needed and significant leverage can be achieved."*

The examples of the guarantee programmes in Sweden and Denmark also show the importance of structuring programmes that, unlike the traditional DFI model, are free of financial requirements and can appraise proposals solely based on their contribution to identified impact targets. Sweden achieved this by placing the guarantee instrument within a development agency. In contrast, Denmark achieved this by placing it within a DFI but outside of its regular balance sheet, with the Ministry of Finance agreeing to fund any deficit for IFU's administration costs not covered by the guarantee fees during the four-year pilot period.

3. Remaining flexible in the strategic approach guiding guarantee deployment

Sida's guarantee program also significantly benefited from remaining flexible in its strategic approach to deploying guarantees, aided by the leverage provided by Sweden's AAA credit rating, as Korsgren observes:

> *"We can be flexible regarding lengths of tenors and choice of country, we can subsidize guarantee fees, our guarantees are backstopped by the balance sheet of the Swedish government, which has an AAA credit rating, and we don't have any maximum exposures. Compared with DFIs, Sida is not regulated: our provisions for expected loss are quite small compared to how much a regulated bank would need to make for similar guarantees."*

This flexibility has been critical to demonstrating the potential of the guarantee instrument to the market; and indeed, as Anna Holmryd, Senior Adviser for International Development Cooperation at Sweden's Ministry for Foreign Affairs, notes, this innovation was actively encouraged by the Swedish Ministry of Foreign Affairs for that purpose:

> *"Sida was allowed to innovate as it takes time to learn what is more or less effective, and it needed to gain experience within the organisation on how to work with guarantees. Most of the guarantees that anchored the portfolio were co-guarantees between Sida and USAID. These were more standard portfolio guarantees. Based on this experience, Sida increasingly developed their own guarantees and (when Sida began to work on their own guarantees), there was greater innovation."*

Agencies thinking about launching guarantee programmes and considering how to set indicators and targets around their success can also learn from the different competencies involved with the guarantees that Sida has experimented with historically; from bilateral portfolio guarantees that share risk with local banks, boost access to capital, and are tailored to the requirements of a specific local context, to fund guarantees with a larger geographical remit that can focus on capital mobilization and help the donor agency to build a diversified portfolio. Looking forward, in a field where, on the one hand, demand from investors for guarantees and risk-sharing is large and growing, while on the other hand, too few donors are currently working with guarantees, continued efforts to build guarantee programmes with the freedom to experiment and collaborate with others will be essential.

PART 5

KEY RECOMMENDATIONS

What steps can the donor and investor community take to deploy guarantees more effectively in service of the goal of mobilizing private investment at scale in developing markets? Convergence suggests the following action items, each of which seeks to address key existing challenges identified by the industry stakeholders interviewed for this report.

1. Address fragmentation and competition amongst guarantee providers by increasing funding to intermediaries.

Earlier in this report, we discussed the low utilization of Sida's guarantees by covered banks. However, Jules Ngankam, African Guarantee Fund's Group CEO, goes a step further, noting that not only is the small size of many guarantee programmes dwarfed by the scale of the development challenges they look to address (e.g., AGF can absorb $2 billion of guarantees, but Sub-Saharan Africa's annual SME funding gap has been estimated at $331 billion), but there's also a high degree of fragmentation and competition amongst guarantee providers. This fragmentation gives providers less power to influence banks whose size is of a much larger scale. Without large guarantee players, through which multiple donors can speak with one voice, and which can then influence banks backed by trillion-dollar balance sheets, the banks can spark a race to the bottom, driving down prices by playing one guarantee provider against another, with subsidized pricing offered by some providers potentially having a distortionary effect.

Donors should therefore increase their collaboration by boosting funding to intermediaries, through which they can speak as a single, magnified voice in their conversations with banks and other guaranteed financial institutions.

As Ngankam notes:

> *"Today, because of fragmentation, we spend a lot of time competing with other providers and forgetting about our development goals. We can do much better if we all come together so we can optimize the achievement of our goals, rather than competing for the same customers, who then exploit that by driving the price down, which benefits their shareholders rather than the SMEs we want to support."*

Moreover, in addition to the above advantages, multi-donor funded intermediaries provide other benefits. They allow for greater leverage of donor funding and are therefore capital efficient (donors can count funding contributed to entities like GuarantCo as ODA eligible and obtain more funding; GuarantCo can leverage 3x for each $1 of donor capital in the form of guarantees). In addition, they also often have greater capability to deploy a larger suite of instruments. Due to restrictions arising from Swedish legislation, Sida does not currently provide equity guarantees. This problem is particularly apparent in geographies like Sub-Saharan Africa, where there is a widespread need for early-stage equity investment. Meanwhile, intermediaries like AGF can deploy equity guarantees, which are needed to help develop local capital markets and increase the number of equity investors.

2. Address the challenge of tracking guarantees' development impact by creating standardized indicators, conducting ex-post impact case studies, and assessing the impact of guarantee portfolios in their entirety.

Sida's difficulties with impact reporting and monitoring within its guarantee programme fed into the broader issue of a lack of familiarity with the guarantee instrument, particularly when providing guarantees outside of the least developed countries. Connected to the challenge of influencing the behaviour of private banks, Sida also found that receiving impact reporting from banks proved difficult.

Donors should strengthen their impact monitoring frameworks within their guarantee programmes by creating, tracking, and ultimately publishing standardized indicators aligned with their unique development goals. While Sida currently publishes Annual Portfolio Reports which reveal important financial trends such as mobilized capital and leverage ratios, there is a lack of standardized information on development impact. As such, most development results are communicated case by case.

Poor impact monitoring and transparency is not an issue unique to guarantee deployment; financial terms and ex-post development outcomes are not generally published by blended finance stakeholders, limiting the evidence for blended finance as a development tool. Ex-post impact case studies, funded by technical assistance tacked onto guarantees, are one way in which donors can assess their guarantees' ultimate impact, helping to raise internal buy-in to the instrument. Meanwhile, increased collaboration and coordination between donors (as discussed above) can help encourage banks to provide regular impact reporting. Ultimately, reporting on the aggregate impact of entire guarantee portfolios will also serve to bolster confidence in the instrument's suitability for development.

3. To truly address the challenge of scale, guarantees should be demystified across the entire development agency.

As outlined in this paper, a lack of familiarity with and capacity for guarantee deployment across Sida initially slowed the uptake of guarantees at the agency.

Contributing factors included:

i. a lack of knowledge of the use and applicability of guarantees to Sida's development programmes,

ii. a lack of technical skill sets across staff, and

iii. high transaction costs compared to traditional grant aid.

Sida has addressed these issues in two ways:

i. by educating and training teams across Sida on the functionality and use of guarantees, including local embassies and regional teams, and

ii. by expanding the mandate and authority to issue guarantees across all units.

Sida provides a lesson on scale here; guarantees cannot be scaled under one unit alone – they must be integrated so that they become a standardized tool in the development toolbox.

There are three ways to approach the notion of standardization, each of which can be combined when addressing challenges of scale:

i. promote more programmatic or fund-level guarantees that spread transaction costs, create more leverage, and result in greater impact,

ii. structure guarantees under a more systematic documentation framework or through a homogenized menu of structuring options to simplify the customization often associated with guarantee construction,

iii. aggregate pools of guarantee quanta to fund collaboration and increase risk-sharing opportunities.

4. Guarantees often require lengthy and complex regulatory processes. Where appropriate, governments should look to follow the processes already undertaken by other countries.

Sida provides important lessons on how and what government processes may be required to equip government agencies to deploy guarantees for development purposes. Amongst other challenges, EU state aid legislation hinders state-backed guarantee interventions from supporting EU-domiciled funds, which constitute a growing share of Sida's portfolio. Following incremental steps to pilot guarantees across various Swedish departments, dating back to budget reforms in the 1990s, the real catalyst for Sida came in 2009, following the Ordinance on Loans and Guarantees, which effectively gave Sida the mandate to provide risk-sharing to financial intermediaries via its AAA-rated guarantee model.

To streamline and encourage more donors to deploy guarantees, OECD DAC members should look to learn from Sida and others to replicate processes. Denmark's current partnership with Sida exemplifies this approach to scale guarantees. Recognizing that Denmark has a similar government structure to Sweden, IFU will collect learnings and build experience and competence from the cooperation with Sida, including relying on Sida for origination and risk assessments.

ANNEX RESOURCES ON GUARANTEES FOR PRIVATE CAPITAL MOBILIZATION IN DEVELOPING MARKETS

	TITLE	AUTHOR	YEAR PUBLISHED	REGIONAL FOCUS	SUMMARY
1	*Amounts mobilized from the private sector by official development finance interventions in 2018-19*	OECD	2021	Global	A breakdown of data, across a series of dimensions, from the OECD on the total capital mobilized for development in 2018-2019 by official development finance. While MDBs remain major actors, bilateral providers have also played an important role.
2	*Blended Finance Evolution: Governance and Methodological Challenges* (OECD Development Working Papers)	Ole Winckler Andersen, Irene Basile, Antonie de Kemp, Gunnar Gotz, Erik Lundsgaarde, Magdalena Orth (OECD)	January 2019	Global	A discussion on key management and organisational challenges that influence how blending vehicles are monitored and evaluated.
3	*DAC Methodologies for measuring the amounts mobilised from the private sector or by official development finance interventions*	DAC	May 2020	Global	Outlining the methodology used by DAC to measure amounts mobilised from the private sector by official development finance using various intervention vehicles. This includes analysis of vehicles such as guarantees, syndicated loans, shares in collective investment vehicles, direct investment in companies, credit lines, co-financing arrangements, project finance schemes.
4	*Evaluation of Sida's use of guarantees for market development and poverty reduction*	Carnegie Consult	2016	Global	A case study and evaluation report on Sida's use of guarantees for market development and poverty reduction.
5	*Guaranteeing the Goals: Adapting Public Sector Guarantees to Unlock Blended Finance for the U.N. Sustainable Development Goals*	Chris Lee, Aron Betru and Paul Horrocks	April 2018	Global	An overview of the policy and regulatory issues that impede development finance tools, particularly guarantees and other insurance products, that ultimately prevent maximizing private capital mobilization. While the OECD found that guarantees were the most effective leverage instrument, approx. 50% of those were not structured to maximize the mobilization of private capital because of the incompatibility with financial regulations and some banking business models.

	TITLE	AUTHOR	YEAR PUBLISHED	REGIONAL FOCUS	SUMMARY
6	*Guarantees for Development* (OECD Development Working Papers No. 112)	Mariana Mirabile, Julia Benn, Cecile Sangare (OECD)	August 2013	Global	The paper analyzes a survey conducted by the OECD to estimate the volume of private sector flows to developing countries mobilised by guarantee schemes over the period of 2009-2011. It explores the feasibility of collecting qualitative and quantitative information on guarantee schemes and discusses how to measure and report the leverage impact of different instruments used in development finance in the future.
7	*Guarantees for Development*	Raundi Halvorson-Quevedo and Marina Marabile, Development Co-Operation Directorate	March 2014	Global	An analysis of a survey of guarantee portfolios from bilateral aid agencies, DFIs and IFIs. The analysis measures the magnitude, geographic spread, and characteristics of development guarantees and how to best measure the extent of which guarantees catalyze resources for investing in development.
8	*Guarantees for Development – a review of multilateral development bank operations*	Chris Humphrey and Annalisa Prizzon	December 2014		Guarantees for development have grown in relevance, especially as many developing markets are more focused on accessing private sources of finance rather than traditional development loans. However, several challenges remain, including, MDB financial reporting practices and ODA eligibility.
9	*Innovations in Guarantees for Development*	Romina Bandura and Sundar R. Ramanujam, (CSIS)	October 2019	Global	The report presents the virtues and shortcomings of scaling the use of guarantees. It also highlights opportunities for innovation by actors that operate outside the established MDB business model and the different types of collaborations between MDBs and bilaterals to leverage their own comparative advantage and structure guarantees more effectively.
10	*LAIF – CIF Operational Report 2020*	European Commission	2021	Latin America, Caribbean	Reporting the work carried out by the Latin America Investment Facility (LAIF) and the Caribbean Facility (CIF) in 2020. The two regional blending facilities use EU development funds to leverage investments from financial institutions, national governments and the private sector for projects that foster sustainable and inclusive development in the two regions.

	TITLE	AUTHOR	YEAR PUBLISHED	REGIONAL FOCUS	SUMMARY
11	*SIDA Guarantee Portfolio*	SIDA	2019	Africa, Europe, Asia	The Sida Guarantee Portfolio highlights the different types of guarantees within the Sida portfolio and its geographical and sectoral spread, including in sectors such as infrastructure, environment, market development, health, democracy, and human rights.
12	*The Role of Guarantees in Blended Finance* (OECD Development Working Papers No. 97)	Weronika Garbacz, David Vilalta, Lasse Moller	May 2021	Global	This working paper analyzes the role of development guarantees as a valuable instrument in the blended finance toolbox to mobilize private sector investment towards achieving the SDGs. It argues that there may be significant scope for more extensive and better use of guarantees as both a response to the COVID-19 crisis, but also to promote more investment underdeveloped and underserved markets, often found in LDCCs.

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