

## Sida's guarantee operations

– central government's work with guarantees in Swedish development cooperation

## Summary and recommendations

The Swedish National Audit Office has audited whether the Government and the relevant agencies have ensured that Sida's guarantees are implemented effectively. A guarantee is a kind of insurance for lenders. This means that Sida shares the risk with investors who, in return for a fee, recover some of their losses if borrowers are unable to repay their loans. The purpose of Sida's guarantees is to mobilise resources to achieve development cooperation policy objectives.

The audit shows that the Government has been clear in its governance of guarantees. Sida and the Swedish National Debt Office have in general also worked purposively with aid-related guarantees. However, the audit shows that there are shortcomings in the work that are of importance for the efficacy of guarantees and for calculating the State's risk. Sida and the Swedish National Debt Office should therefore ensure that their assessments of different parts of the guarantees' design are well-reasoned. Sida should also plan systematically to follow up on the results of guarantees, as the knowledge to date of the guarantees' long-term effects is limited.

### Audit findings

**Sida uses guarantees in an increasing number of strategies, but several factors complicate their use**

Sida considers and decides to use guarantees within an increasing number of strategies. However, at the same time the size of Sida's guarantee portfolio has not increased in recent years. The Swedish NAO identifies several factors that make it difficult for employees to use guarantees. Guarantees are often more resource-intensive to manage than other aid contributions and they require special expertise. Employees at Sida also experience that Sida's management prioritises the payments of development aid funds over the mobilisation of capital. The Swedish NAO has not been able to assess whether employees have chosen other, less relevant instruments due to these factors. However, the Swedish NAO Office wants to emphasise that it is not Sida's internal governance that should determine which instrument that employees choose to implement the development

cooperation. The choice of instrument should instead be guided based on an assessment of the instrument's relevance.

### Sida has mainly designed the guarantees on well-reasoned assessments, but there are shortcomings in its internal support and documentation

Sida has mainly designed the guarantees on the basis of well-reasoned assessments. However, it is unclear what considerations that have formed the basis for Sida's choice of risk-sharing level and of possible subsidy. There is also a lack of clarity regarding how Sida assesses the risks of negative market distortion. Sida's internal documents do not provide programme officers with sufficient support to make these considerations and assessments. Risk sharing, subsidies and market distortion are aspects that largely distinguish guarantees from other aid contributions. They also affect the guarantee recipient's incentive to lend to the target groups that Sida wants to reach, and the opportunities to put a guarantee in place. According to the Swedish NAO, it is therefore important that Sida ensures that the assessments related to these aspects are well-reasoned.

### Sida does not systematically plan the follow-up of the guarantee results

Sida has, to some extent, established good conditions to follow up on the results of the guarantees. At the overall level, Sida describes what the guarantees are expected to result in. Sida also requests relevant data to follow up on the outputs related to the guarantees. However, Sida does not systematically plan how the possible outcomes of the guarantees should be followed up. For example, Sida does not always specify which aspects or indicators that would be relevant to follow up, in order to measure financial outcomes and development outcomes. According to the Swedish NAO, this complicates the follow-up.

Sida's follow-up is based on the information that the guarantee recipient reports to Sida by agreement. However, Sida only requests relevant reporting of outcomes related to a few of the guarantees that were included in the audit. According to the Swedish NAO, Sida should request such reporting for all guarantees. If it is not possible to agree on relevant reporting, Sida needs to plan for supplementary follow-up measures. This is important in order to create an opportunity to follow up on the guarantee results, including their long-term effects.

### Sida and the Swedish National Debt Office have mainly worked effectively to calculate expected losses, but their internal support needs to be strengthened

Sida and the Swedish National Debt Office have mainly worked effectively to calculate the State's expected losses on guarantees. However, it is not possible to

follow what considerations that Sida and the Swedish National Debt Office have made to estimate “the expected exposure” and “expected loss given default” that are important parameters in the calculations. Both Sida and the Swedish National Debt Office lack a clear administrative support to estimate these parameters. This may result in the expected loss being estimated with less precision, which, in turn, would affect the size of the guarantee fees and the possible subsidies.

## Recommendations

The Swedish NAO’s assessment is that the Government’s governance of Sida’s guarantee operations has been clear. Therefore, no recommendations have been made to the Government.

However, the audit shows that Sida’s and the Swedish National Debt Office’s assessments in the work with guarantees have not been well reasoned in all respects. There are also shortcomings in Sida’s work to follow up guarantees. The Swedish NAO therefore makes the following recommendations to Sida and the Swedish National Debt Office.

### Recommendations to Sida

- Strengthen the internal support for the design of guarantees and document the considerations that have been made. It is important that the assessments made are well reasoned to ensure the effectiveness of guarantees. Internal support should be strengthened regarding the following aspects:
  - assessments of the level of risk-sharing and the level of possible subsidies
  - assessments of the risk of negative market distortion
  - estimations of the parameter “expected exposure” when calculating expected losses.
- Plan the follow-up of guarantees so that the outputs and outcomes of all guarantees can be followed up. This is important in order to be able to improve the guarantees continuously and in order to gain increased knowledge of the guarantees’ long-term effects.

### Recommendations to the Swedish National Debt Office

- Strengthen the internal support for estimating the parameter “expected loss given default” and document the considerations that have been made. This is important to ensure that calculations of the State’s expected loss are reasonable.