Developing an impact monitoring system for Sida's guarantee instrument

Learnings from case studies from Guatemala and Bosnia and Herzegovina

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Executive summary

The Swedish International Development Agency (Sida) has been offering guarantees for the last decade, sharing risk between public and private actors, with the goal of mobilizing additional capital for development. Sida pioneered the guarantee instrument in its current shape and the tool is increasingly being used by development partners. To improve identification and measurement of impacts created, Sida partnered with the ILO's Social Finance Programme, with a thematic focus on inclusive economic development and on guarantees provided to financial service providers.

In the context of this joint work, a series of studies were conducted in two countries were Sida has active guarantees: Guatemala and Bosnia and Herzegovina. The studies were an important input to inform the development of an impact monitoring system for Sida's guarantee instrument. Through desk research, interviews and surveys with banks and their clients, the ILO and Sida acquired information related to the process of designing and monitoring guarantees as well as preliminary data on impact achieved to date. This report summarizes these findings, including a cross-case analysis of relevant aspects on managing impact of guarantees. Among other findings, the studies provide a sample of how the process of impact management relies on a robust framework, which spans from the establishment of a theory of change to data collection and analysis of pre-determined indicators, to incorporating findings in decision making.

In terms of results of the guarantees in the two countries, the analysis points to significant impact achieved at different levels. The guarantee provided the financial institutions, one microfinance institution and one MSME bank, with new business opportunities, arising from working with a new client segment or growing an existing client base. They also were better positioned to meet their client needs and achieve social goals, by providing access to finance to a target client group, aligned with Sida's objectives in the local context. Moreover, clients receiving loans which were backed by the guarantees also experienced positive changes. In both cases, a significant share of clients were first-time borrowers and would not have been able to obtain a loan without the support provided by the Sida guarantee. By having access to these loans, clients were able to finance business expansions and increase employment opportunities, with more significant effects for women workers in Bosnia and Herzegovina. The combination of benefits to clients, workers and the financial institutions is a critical factor towards sustaining the impact of the guarantee in the long term.

After the development of the impact management framework and the encouraging findings from these studies, Sida and the ILO continue working on improving tools already developed during this project as well as applying those in more countries during 2023 and 2024.

1. Introduction

1.1. Background

The Swedish International Development Agency (Sida) has been offering credit guarantees for the last decade, sharing risk between public and private actors, with the aim of mobilizing capital to the benefit of underserved clients. Access to finance for small and medium-sized enterprises and micro entrepreneurs in Sida's partner countries is very limited, with female and young entrepreneurs being particularly disadvantaged. Financial institutions often find it too risky to offer loans to clients that lack entrepreneurial experience, credit history, collateral or operate in unstable environments, and guarantees seek to incentivize financial institutions in reaching such clients.

What is a credit guarantee?

- A credit guarantee is a risk sharing mechanism which allows financial institutions (such as banks or microfinance institutions) to reduce the risk of lending to a specific group. In case a default occurs, a guarantor covers a part of the loss which the financial institution would incur. A guarantee can protect an institution against losses from one specific loan or a portfolio of loans, under pre-defined eligibility criteria (for instance, women borrowers). Guarantees are most commonly provided by development finance institutions, development agencies or multilateral development banks.

Most of Sida guarantees target inclusive economic development across multiple sectors, including agriculture, rural development, trade and housing, while others also cover of themes such as environment and energy, sustainable infrastructure, democracy, human rights, gender and health.

Since the guarantee instrument is placed to address development challenges, measuring impact towards their achievement becomes paramount. This process is complex and requires a systematic approach. Challenges arise as impact created through guarantees is largely indirect and experienced at the level of the final beneficiaries, such as individuals, agricultural entrepreneurs, small businesses, their employees and their families.

To improve identification and measurement of impacts created, Sida partnered with the ILO's Social Finance Programme to develop an impact monitoring system for its guarantee instrument. The thematic focus of this joint work is on inclusive economic development and on guarantees provided to financial service providers. Overall, the partnership aims at:

- Elaborating a framework for monitoring the development impact of Sida's guarantee instrument, including a theory of change to achieve desired results/impacts, and
- Developing and testing tools to track and monitor results and impacts indicators, aligned with Sida's policies and strategies, as well as international good practice and standards.

The work was based on an initial review of Sida's existing impact measuring and monitoring practices for the guarantee portfolio, including at Sida headquarters as well as at country level. The resulting diagnostic report informed the development of a Theory of Change (Annex 1) and determined the tools to be elaborated.

The Theory of Change (ToC) summarizes the type of problems that the Sida guarantee instrument typically aims to address when tackling access to finance for Micro, Small and Medium Enterprises (MSMEs), the link to employment creation and inclusive economic development outcomes. In general, the ToC sketches categories of inputs required to solve the problems, the activities that Sida and implementing partners can undertake, as well as the expected outputs, outcomes, and impacts at the guarantee partner (financial institution), its clients, and their stakeholders (including employees, their families, and communities).

The development of the ToC and the tools was supported by studies assessing selected aspects on one Sida guarantee in Guatemala and two Sida guarantees in Bosnia and Herzegovina. This report summarises the findings of these studies and illustrates their contribution to the development of the framework for monitoring the development impact of Sida's guarantee instrument.

1.2. Introduction to the case studies

Sida and the ILO selected Guatemala and Bosnia and Herzegovina for a deep dive into the guarantee instrument and its potential impact. The countries were selected taking into account the specificities of each guarantee agreement, as well as the profile of each guarantee partner. Local consultants, with expertise in finance and impact measurement, as well as ability to communicate with the banks and clients in their native language, were hired to conduct the studies. The studies were conducted between 2021 and 2023.

The objective of the studies was to:

(i) Understand the challenges and opportunities related to implementing the guarantee facilities in Guatemala and Bosnia and Herzegovina;

(ii) Suggest measures to help Sida improve the identification and measurement of development impact created by the guarantee;

(iii) Gather preliminary impact data, either as baseline for future assessment or as an intermediate assessment of impact achieved, depending on the stage of maturity of each guarantee.

In Guatemala, Sida signed a guarantee agreement with COSAMI in 2021. COSAMI is a credit cooperative and was identified to have potential to target clients in greatest need of access to finance. This included population with lower socio-economic status, agricultural producers, young and women entrepreneurs, as well as those lacking credit and banking history.

In Bosnia and Herzegovina, Sida engaged in two guarantee agreements with ProCredit Bank, an MSME bank in 2019 and 2020. The goal of the guarantees in the country is to promote lending to MSMEs, with a focus on those which are (a) undertaking energy efficiency projects and (b) supported by the country's diaspora.

Data availability

Availability of data related to development effects is a key issue in impact management. The fact that guarantees have a cascade effect in the way they operate adds complexity to impact measurement, including questions around attribution. Regardless of such challenges, the process starts with the development of a sound Theory of Change (ToC), linking activities and inputs to outputs, outcomes and impact.

Based on the Theory of Change developed in this project (Annex 1) and existing sources (including the ILO's work on impact measurement of investments and external sources such as the IRIS+), a set of monitoring indicators was developed and compiled in an indicators tool. These indicators have a wide scope, including financial aspects of the loan portfolio and the clients, employment aspects (quantitative, qualitative and inclusivity aspects) and indicators related to the bank's operations. Indicators are sex-disaggregated when applicable.

The studies conducted in the two countries provided important insights regarding the availability of data as well as the channels available to Sida to collect such data[1]. For some indicators, information was readily available and easily accessible by the bank. For others, the banks supported data collection through their existing contact channels with clients. Finally, surveys were conducted to generate additional data, particularly at levels which are further away from the bank (such as employees of clients).

[1] Unless otherwise indicated, all data presented in this report comes from such studies.

2. Guarantee instrument in Guatemala

The guarantee instrument considered in Guatemala was launched in 2021, with a guarantee amount of up to 72.0 million Guatemalan quetzals (approximately US$9.1 million) and a total of 1,000 loans. The guarantee agreement, signed between Sida and COSAMI, covers 70 per cent of the loan amounts not recovered up to 50.4 million quetzals (US$6.4 million). The guarantee covers eligible loans for a maximum period of eight years. The target group is comprised of population segments with greatest need for access to finance in sectors such as agriculture, livestock and handicrafts. In addition, the guarantee agreement requires that at least 45 per cent of the loans granted under the programme should be given to women.

The guarantee was developed in the context of the Strategy for Sweden's development cooperation with Guatemala 2021-2025[2], in particular aiming to support the objective of inclusive economic development. This objective includes the results of (i) promotion of productive employment opportunities with decent working conditions and promotion of sustainable, free and fair trade; and (ii) strengthening the economic empowerment of women. In particular, the generation of income, including in small-scale agriculture, is to be promoted for the economic empowerment of women.

▶ The guarantee partner

COSAMI, the guarantee partner in this case, is a highly regarded credit cooperative in Guatemala, with 56 years of experience and more than 220,000 members. As a credit cooperative, it is owned and controlled by its members. It is known for offering diverse financial and non-financial products to its clients, in general with better conditions than those offered by Guatemalan banks.

Two studies were conducted, in 2021 and 2023, related to the guarantee provided to COSAMI. The first study focused on (i) making an initial evaluation of COSAMI (analysing its capacity as Sida's guarantee partner); and (ii) identifying opportunities and challenges in implementing the guarantee instrument. The second study had as main objective to pilot the indicators tool developed in the context of the ILO-Sida partnership, with the intent to produce baseline data for future assessments. It also followed-up on recommendations from the first study and how COSAMI evolved in its efforts to utilize the guarantee.

2.1. Overview of findings

The studies in Guatemala were conducted shortly after the guarantee agreement had been signed. This situation provides a benefit in terms of ease of access to baseline data, but it also means that actual change at the level of the financial institution, clients and employees, is yet to be produced. Therefore, the findings of these studies are more oriented to the processes of developing and implementing a guarantee than to the specific impacts achieved in Guatemala to date. As the overall objective of the project is to derive lessons to further increase Sida's guarantee programme, such findings are of great value for Sida and the ILO. These findings cover the role of the guarantee partner on data collection and its outreach to the target group, in addition to providing further information on the characteristics of the clients benefiting from the guarantee to date.

The role of the guarantee partner on data collection

The first study in Guatemala resulted in a series of indicators to be tracked related to the impact of the guarantee. After that, the ILO and Sida developed an indicators tool (as mentioned above) covering different areas of the Theory of Change for guarantees and inclusive economic growth. Once the relevant indicators to this specific situation were selected, COSAMI had a key role in supporting data collection at various levels:

[2] The Strategy for Sweden's development cooperation with Guatemala 2021-2025 can be found here.

(i) Some indicators related to basic loan characteristics came from COSAMI's Management Information System

(ii) After the first study, the cooperative changed its onboarding and monitoring questionnaires for clients to include additional indicators, including some related to household income and working conditions.

(iii) During the second study, which considered a larger data set, the selected data collection methodology was a survey with clients. Of the 132 clients already receiving loans benefiting from the guarantee, 47 were interviewed. The survey was performed by COSAMI's staff (which received training from a consultant), based on the cooperative's assessment that clients are used to sharing information with their staff and would be more open to answer questions than if faced with a new (unknown) research entity.

The experience with COSAMI shows the importance and centrality of having the guarantee partner committed to achieving and reporting on development results. Whereas the intention is not to overburden institutions with extensive reporting requirements, the engagement of the guarantee partner is crucial to achieve efficiency throughout the process.

Outreach to target group

COSAMI was found capable to implement the instrument and reach target groups, which currently remain underserved by the formal banking system. Credit cooperatives have greater flexibility and a local knowledge that outperforms the banks. COSAMI has a robust credit management model in place along with sufficient staff on the ground to help attract more clients and increase the guarantee's outreach.

To increase its outreach, COSAMI developed a special credit product called EMPRENDIMIENTO, targeting beneficiaries of entrepreneurship programs developed by the cooperative or development partners, and who do not yet fulfil conditions to obtain regular loans. The EMPRENDIMIENTO loans provide repayment periods of up to 60 months, potentially with grace periods, and at rates between 13 and 16 per cent per year, lower than those practiced by banks in Guatemala. COSAMI prioritized efforts in two areas of high interest, due to strong restrictions on access to finance, which are Momostenango and Concepción Chiquirichapa.

Characteristics of clients

The data collected from COSAMI and its clients confirmed that the guarantee is benefiting the intended target group. Some key insights into the profile of clients include:

- More than 40 per cent of the clients are younger than 30 years and the majority of them are running microbusinesses. Nearly 90 per cent of such businesses are informal enterprises.
- Client businesses have average sales of 267,000 quetzals per year (around US$33,000). The net income provided by the business to the households is 6,300 quetzals (around US$780) per month, above the cost of a basic food basket in the country as well as the minimum wage for most departments. Household income is further improved by the fact that some family members have paid employment outside the family business.
- First-time borrowers comprise 40 per cent of the guaranteed portfolio. The remaining 60 per cent that have borrowed before report having obtained better rates with COSAMI under the EMPRENDIMIENTO product.
- The average loan with the cooperative is of 34,000 quetzals (US$4,300), mostly for working capital needs, with a small part for investments on assets.
- The 47 clients surveyed reported employing 75 people. Although a larger sample would be needed to estimate the job creation potential of the whole guarantee, this already provides a starting point for such assessments.
- Barriers previously faced by clients in obtaining credit were ranked as follows:

Main barrier to obtain loans	Percentage of respondents
High interest rates	37%
Lack of collateral	23%

Lack of accounting	17%
Inadequate repayment conditions	13%
Lack of a bank account	10%

The combination of Sida's guarantee and the characteristics of COSAMI's product seem to address several of these issues. For example, the guarantee itself addresses the issue of the lack of collateral, while the specific product designed by COSAMI contributes to solutions to inadequate repayment conditions and high interest rates.

2.2. Conclusions from Guatemala

The studies in Guatemala provided an opportunity to explore different steps in the impact management cycle of the guarantee. As the first study took place shortly after the guarantee agreement was signed, it was possible to engage with the guarantee partner to discuss reporting requirements that were better suited to Sida's improved approach to its guarantee program. Moreover, mission alignment with Sida and the commitment of the guarantee partner have proven instrumental to ensure adaptation of processes within the cooperative and a joint effort to obtain more data from clients.

The development of a dedicated loan product for Sida's target beneficiary was key to boost utilization of the guarantee. Clients benefiting from the Sida guarantee to date seem to have businesses with capacity to generate income, but that were constrained by the lack of access to adequate finance. However, despite the positive preliminary evidence that the guarantee can generate employment opportunities, challenges remain regarding the quality of such opportunities in the country due to, among others, high rates of informality.

Moreover, the studies show how the guarantee led COSAMI to refine its service offering to previously underserved clients, addressing the barriers to credit discussed above. COSAMI was able to extend credit to clients which were not able to access it before, and to improve the terms offered to those who had previously borrowed. This means increased business opportunities for the guarantee partner and business growth at the client level, improving opportunities for productive employment. As the guarantee progresses and more data can be collected throughout the lifetime of the program, additional insights are expected on the impact generated by this instrument.

3. Guarantee instrument in Bosnia and Herzegovina

Two loan guarantee agreements were assessed in Bosnia and Herzegovina (BiH). The first one was the Energy Efficiency Guarantee, launched in 2019. This guarantee is a joint facility of Sida and the United States Agency for International Development (USAID), with a total guarantee amount of US$5.7 million (Sida's share: US$2.5 million). The risk coverage is up to 60 per cent for a duration of 7 years. The second guarantee included in the study is the Diaspora Guarantee, launched in 2020. This is also a joint facility, with Sida and the United States International Development Finance Corporation (DFC) providing risk coverage up to 50 per cent again over the duration of 7 years. The total guarantee amount is US$7.0 million (Sida's share: US$1.8 million).

Both guarantees aim at promoting access to finance for MSMEs in the country, contributing to objectives of the Strategy for the Swedish Reform Cooperation to Western Balkans and Turkey 2021-2027, which sets out the aim and the scope of the Swedish support to Bosnia-Herzegovina[3]. The main goals for the cooperation with Bosnia-Herzegovina include, among others, inclusive economic development, and MSMEs have an important role to play in promoting improved opportunities for productive employment with decent working conditions. Other area of focus is on reduced environmental and climate impact, which supports the focus of one of the guarantees in energy efficiency activities.

▶ Diaspora context in Bosnia and Herzegovina

More than 2 million people originating from Bosnia and Herzegovina reside outside the country. The BiH diaspora is considered one of the largest in the world in relative terms. This diaspora is mostly well-integrated in the country, with potential and willingness to contribute to economic development. According to the Monitoring and Evaluation report of USAID Diaspora Project (2021), BiH diaspora investors perceive significant access to finance limitations as impediments to increased direct investment in BiH. Greater diaspora engagement efforts are increasingly impeded by a lack of trust in the local government and concerns about the business environment.

To support the elaboration of the impact monitoring framework, two studies were conducted, in 2021 and 2022. The first study had the goals of:

(i) Identifying opportunities and challenges for guarantee stakeholders (Sida, the bank, the clients) related to the use of the guarantee;

(ii) Assessing the potential of the programme to generate development impact (in terms of income generation, job creation, gender equality and others)

(iii) Based on the bank's management information system and the Theory of Change for the guarantees, proposing a set of impact indicators to be collected the future.

The second study had as main goal to measure the impact achieved with the guarantee, based on the indicators established in the first study.

The studies were based on several data sources, included periodic reports submitted to Sida, primary data collection from the bank (interview with bank staff) and client surveys. The survey for the second study was sent to all clients under the guarantee (106 companies) with a response rate of 51 per cent.

▶ The guarantee partner

ProCredit Bank

ProCredit Bank specializes in financing small and medium enterprises and offers a range of services including credit, deposit and transaction operations. Its parent company, ProCredit Holding, is a public-private partnership, owned by development finance institution, pension funds and other institutions.

[3] The Strategy for the Swedish Reform Cooperation to Western Balkans and Turkey 2021-2027 can be found here.

3.1. Overview of findings

The studies provided different insights on how the guarantee operated at different levels. Whereas the first study was more exploratory and qualitative, the second study built on the first and added quantitative data collection. While neither of the studies were a full impact evaluation, they provided relevant information to inform not only the specific interventions in the country but the broader work on improving impact management practices for Sida. The insights provided by such studies are summarised below, covering areas such as outreach to target clients, impacts on practices at the bank, and changes in socio-economic indicators for clients and their employees.

Outreach to target group

One of the key motivations behind using guarantee as an instrument to foster access to finance is that local banks are in a better position to reach underserved groups. Therefore, one of the aspects covered by the studies was on how the bank capacitated its staff and deployed new approaches to achieve this objective, as well as whether these were sustainably incorporated in the bank's operations.

ProCredit Bank provided trainings to its staff on the target group characteristics and implemented targeted promotional activities. In 2021 and 2022, key bank staff working in risk and commercial areas were trained on the specificities of the two new credit lines (energy efficiency and diaspora). The bank also implemented promotional activities focused on the diaspora segment through the branches and conducted presentations for companies on areas identified as more likely to receive diaspora investments.

At the time of the first study, the utilization of the diaspora guarantee was limited, mainly due to challenges in identifying qualifying borrowers. While it is known that diasporans invest significantly in the country, it is not always easy to target this particular group or to identify diaspora-owned SMEs. In addition to the difficulties in identifying the target group, diaspora investments declined due to COVID-19, political instability in the country and overall lack of confidence in the business environment. However, in addition to the promotional activities described above, the bank benefited from initiatives supported by, among others, USAID and Sida, such as the Diaspora Invest Programme and Challenge Programme, resulting in full utilization of the diaspora guarantee by the end 2022, as shown in the table below:

▶ Utilization levels of Sida guarantee facilities in Bosnia and Herzegovina

Guarantee facility	Utilization as of 31.12.2020	Utilization as of 31.12.2021	Utilization as of 31.12.2022
Diaspora loan guarantee	2%	48%	100%
Energy efficiency guarantee	88%	94%	100%

In terms of the sustainability of outreach, the study suggests mixed findings. On the one hand, the bank reports an intention to continue working with target groups and has incorporated green finance in its strategic objectives. However, challenges remain to serving the diaspora-supported companies in the long term, due to the perception that financial support to such businesses can more quickly be interrupted in an unfavourable economic scenario. From a financial perspective, the contribution of the guaranteed loans to the bank's total income from interest rates amounted to 5 per cent in 2022, which shows that such segments can be profitable to the bank, further increasing the business case to serving such clients in the long run.

Changes in practices at the bank

In complement to outreach strategies to the target group, one dimension of the studies was related to how differently the bank operated under such programmes. Changes in the client profile in terms of size, credit history, collateral levels and others can indicate the extent to which the guarantee program is creating additionality, or reaching clients which would not have otherwise been able to obtain a loan without the guarantee. The data points below indicate change on some aspects of the bank's credit process:

- The average loan amount approved under the guarantee facilities was significantly higher compared to the average amount approved by the bank to clients in its overall MSME portfolio. While this is partially explained by the presence of some concentration in a few larger ticket-sizes, it points to the bank being likely more inclined to accept higher levels of risks with the support of the guarantee.

- The share of first-time borrowers increased during the utilization of the guarantee, reaching nearly 30 per cent of the portfolio by end of 2022.
- Over 80 per cent of clients had only the Sida guarantee as a collateral for their loan. This indicates that these clients were unlikely to obtain a similar loan without the guarantee. Moreover, about half of the loans were used for the purchase of fixed assets. This use of proceeds supports clients in building an asset base, which, in the future, can be used as collateral for new loans. Finally, of the women-owned business, the share of those clients who only had the Sida guarantee was even higher (100 per cent), further demonstrating the relevance of the guarantee for women.

Client performance

Key outcomes in the ToC are business growth and increased competitiveness, which are important conditions for the increase in employment opportunities provided by MSMEs. In the context of the guarantee with ProCredit Bank, the clients receiving loans supported by the guarantee significantly improved their financial and operational performance.

Generally speaking, all business activity indicators improved between the first and the second study. This included revenues, exports and assets, with average annual growth rates of 19, 20 and 21 per cent, respectively. Over a third of businesses reported accessing new markets since obtaining the loan from ProCredit Bank, mostly on what refers to new exporting markets. However, as the study did not have a control group, it is possible that part of these enhancements were experienced by MSMEs or by ProCredit clients in general, particularly taking into account that the beginning of the period of analysis coincided with slowdown in overall economic activity during the Covid-19 lockdown.

Changes at the level of employees

Ultimately, Sida's goals with the guarantee are to promote inclusive economic growth and contribute to poverty reduction. To assess to what extent these goals are being met, a series of indicators related to employment levels were collected. These included not only the number of jobs, but also quality indicators, like the existence of grievance mechanisms for workers, collective bargaining agreements in place, types of employment benefits provided by the companies, among others.

The majority of employment-related indicators showed positive developments during these first years of the guarantee. The total size of the workforce of all clients that responded to the survey increased by 326 full-time equivalent workers, reaching a total of 1,700 workers, with the majority of such increase being of female workers. Women also experienced more improvements on average wages paid (47 per cent increase, compared to 20 per cent increase in overall wages).

When looking at variations in wages paid, it is important to note that the country's two federal entities experienced increases in minimum wage in 2022. In the Federation of Bosnia and Herzegovina, the minimum wage increased by 136 Bosnia-Herzegovina convertible markas, or 34 per cent, to 543 markas in January 2022. In the Republika Srpska, the minimum wage increased to 650 markas in June 2022. Despite this external factor, the study found that the average minimum wage paid by clients is 75 per cent above the regulatory minimum.

▶ Highlights of changes at the level of workers (aggregated values for surveyed clients)

+24%
Increase in workforce

+39%
Increase in number women workers

+326
Jobs created

+20%
Growth on average wages

+47%
Growth on average wages for women

3.2. Conclusions from Bosnia and Herzegovina

The studies conducted in Bosnia and Herzegovina provided insights related to both the process through which the guarantees operate as well as the substantive impact that can be achieved by them. Although the purpose of the studies was not to conduct an impact evaluation of the guarantees, they generated relevant data which can be used to support such evaluation at a later point in time.

Moreover, understanding the challenges faced by the bank and its clients related to the new programmes is useful to inform future design of guarantees. The studies generated recommendations on how Sida can improve the way it engages with its guarantee partners. This includes improvements in the process of selecting the partner (by, for instance, assessing the partner's capacities to collect relevant impact data or developing products for the target group), or supporting partners in identifying clients, among other aspects which can be supported via technical assistance. The study showed how gathering data can be effective by using a combination of data already collected by the bank complemented by additional data gathered directly from the clients. From a methodological perspective, the assessment of the actual impact can be further developed by adding control groups or expanding the scope of the assessment to indirect and induced effects.

The guarantee itself has shown to generate important impacts at the different levels (including for the bank, for the clients and their employees), in line with the Theory of Change. The bank benefited from increasing its client base without the need to substantially change its operations, and the clients benefited from business growth which ultimately trickled down to their employees. The design of the guarantee itself could be improved to further drive impact, by for example the inclusion of targets related to specific groups, such as women-owned businesses, first-time borrowers and young businesses (as a share of total borrowers).

4. Cross-case conclusions and beyond

The case studies from Guatemala and Bosnia and Herzegovina have provided insights on how guarantees can contribute to inclusive economic development. In addition, they also informed the work towards further improving Sida's impact management processes of the guarantee instrument. Besides the findings from each case study, analysing both contexts in parallel allows to draw some broader conclusions:

- Engagement of the guarantee partner is key for successful impact management. Impact management of guarantees is not solely conducted by the guarantor. The guarantee partner plays a key role, not only by its position as intermediary of financial resources but also supporting impact data collection. Its engagement and commitment to impact is a crucial factor determining whether data will be available, useful and acted upon. The efforts to acquire such data must be taken into account in the design of any guarantee. The case studies provide good examples of detailed data collection which did not overburden the financial institutions.
- Technical assistance can complement efforts by the guarantee partner. In both cases, the guarantee partners expressed how additional support, including via technical assistance, could further support their efforts towards reaching the target group. For instance, one need flagged by the partner in Guatemala was having market assessments to identify regions or economic sectors where the target group is more present and where the institution could focus its efforts to achieve higher utilization rates. In Bosnia and Herzegovina, the guarantee partner has an intention to complement its financial offering with nonfinancial services (such as entrepreneurship support) which could lead to more robust credit applications from the target group.
- The studies also provided insights on the design of the guarantee instrument, such as the possibility of incorporating a gender lens and incentivising outreach to clients most in need. Furthermore, borrowers seem to confirm the benefits of access to finance enabled by the guarantee, as seen in Bosnia and Herzegovina, where most businesses had significant improvement in their financials, further benefiting their employees.
- The guarantee instrument combines increased development impact with benefits to the guarantee partners, which are crucial for the sustainability of the financial services offering. The financial institutions in the two countries were better positioned to meet the needs of their clients and were able to growth their portfolios with the support provided by the guarantee.

There are also challenges related to impact management of guarantees, mainly due to the multi-layered structure leading to the impact and related methodological issues, including related to attribution and control groups. However, the cases have shown that, regardless of these challenges, the impact management process can be data-driven and lead to actions that target predetermined development objectives.

Between 2021 and 2023, parallel to the studies, the ILO supported the development of a toolkit for Sida's guarantee programme, including (i) frameworks for assessing specific financial systems, (ii) assessment tools for selecting the right partner, (iii) catalogues / tool for impact indicators (with supporting guidance for selection and interpretation) and (iv) Terms of Reference for baseline and endline studies. The tools will be published in 2024.

The ILO and Sida continue working on improving tools already developed in the context of this project as well as applying those in more countries during 2023 and 2024.

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Annex I – Theory of Change

PROBLEM

Limited access to finance is one of the obstacles for MSME growth, reducing the possibility to invest in productive assets, increase production and hire new employees.

Lack of appropriate products, high transaction costs for servicing MSMEs, lack of understanding of MSME market, makes borrowing more expensive or unavailable to MSMEs

The financial sector in certain regions remains underdeveloped

Financial needs of firms and individuals are not met due to low levels of financial inclusion – information asymmetry, collateral needs not met, non-available financial products, lack of experience developing business case

INPUTS

Sida

- Guarantee
- Subsidy of fees (sometimes)
- TA as required
- Definition of sectors, target groups – dialogue with partner

- Disposition to offer services to target group
- Disposition to conduct data collection and reporting to Sida
- Disposition to participate in TA as required

Assumptions
Supportive local regulation
Technical competence

ACTIVITIES

Sida

- Accompanying partner to adapt systems and monitoring
- TA activities implementation and monitoring

- Implementing and using guarantee instrument
- Identification of needs to reach target group – implementing actions
- TA activities to support implementation process

- Consulted to identify challenges and needs for loan access
- Participating and benefitting from TA activities

Assumptions
SMEs need a loan to purchase services /equipment and are creditworthy
Lenders wouldn't have issued the loan without guarantee

OUTPUT

- Increased capacities to meaningfully serve the target group
- Participate in TA activities and benefits

- Using (new) financial services
- Purchase services and equipment needed
- Benefits from TA – improve businesses / access to finance

Assumptions
SMEs use the loans as intended
Conducive business environment

OUTCOMES

- Increased / additional lending - capital mobilization to MSMEs
- Increased business opportunities for the guaranteed partner

- Business growth
- Increased competitiveness
- Increased business opportunities for women and young people

- Improved opportunities for productive employment

IMPACT

- Systemic change – policies/system adopted to serve target group

- Increased profits

- More poor people find employment and increase their incomes
- Improve working conditions

- Inclusive economic development

Assumptions
Guaranteed partner finds SME market profitable

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