



DEVELOPMENT CO-OPERATION TIPS TOOLS INSIGHTS PRACTICES

In practice

SWEDEN'S GUARANTEE INSTRUMENT: MOBILISING CAPITAL FOR SUSTAINABLE DEVELOPMENT

Key messages

Guarantees help mobilise capital for development through risk-sharing. The [Swedish International Development Cooperation Agency \(Sida\)](#) has pioneered guarantees for development purposes and applied them effectively for over 20 years. Despite the complexities involved, Sida has mobilised private finance effectively for sustainable development, evolved its portfolio and inspired other OECD DAC members to develop their own guarantee programmes.

Keywords

[Additional development finance](#) | [Finance](#) | [Partnerships](#) | [Private sector](#) | [Institutional arrangement](#)

Key partner

[Sweden](#)

Challenge

Financing the Sustainable Development Goals is a tremendous challenge and will only be achievable by leveraging private sector finance. In developing countries, many enterprises struggle to access financing. This can be due to a variety of factors: lack of a financial track record, lack of security for a loan, or challenging country circumstances, such as conflict or instability. Guarantees can encourage banks and investors to invest in these companies despite these risks, by ensuring that part of any debt instrument losses will be paid back.

Guarantees are important blended finance instruments and have cumulatively mobilised more private finance for sustainable development than any other leveraging mechanism between 2012 and 2020. However, using [guarantees for development can be challenging](#) for various reasons. For example, guarantees are complex to structure; there is a lack of familiarity, expertise and capacity within development institutions for using these instruments; and it can be difficult to adequately measure and demonstrate their development impact.

Approach

- In the early 2000s, Sida was one of the first development agencies to use credit guarantees with a development mandate. The purpose of Sida's guarantee instrument is to promote sustainable development, inclusive economic growth and poverty reduction by unlocking existing financial resources and facilitating access to credit. Guarantees are used as a complement to other development co-operation instruments, such as grants and technical assistance.
- Sida's guarantee portfolio covers a range of sectors – such as infrastructure, environment and climate, and gender – and debt sizes, ranging from loans of local banks to large-scale infrastructure projects. Most of Sida's guarantees are currently loan portfolio guarantees in partnership with local banks, which can contribute to local institutional development and unlock financing for specific groups, for example historically underserved populations. Other types include balance sheet guarantees, which have been used to help multilateral development banks increase their lending to specific target projects. Sida charges a risk-based and administrative fee to the beneficiary of the guarantee (a bank, other financial institution or fund manager), which can be subsidised by a grant if necessary.
- Institutionally, Sida has set up two internal technical units – Origination and Portfolio management – staffed by approximately 20 experts, and mandated to originate, structure, negotiate and follow up on the guarantees. Sida also has dedicated guarantee advisors and transaction managers within each operational geographical department.

Results

- **Positive development results on the ground:** this is the key objective of Sida's guarantees. Through the guarantee instrument, Sida has managed to increase access to finance in many of the poorest developing countries. It has helped small and medium companies around the world develop their businesses and create jobs in sectors from agriculture and energy through to health and media (for examples, see [here](#)). These results were achieved at a low cost in terms of claims paid from Sweden in its role as a guarantor. By increasing the use of guarantees, where suitable, Sida can reallocate scarce ODA where it is most needed.
- **Increased access to finance and mobilisation of additional capital:** At the end of 2022, Sida had 48 active guarantees with a total commitment of USD 1.4 billion. In turn, these unlocked USD 3.8 billion in mobilised capital for development purposes. Total lending made available by Sida's guarantee portfolio was USD 6.4 billion (though note that all Sida's guarantees are denominated in Swedish krona) and USD 60.2 million have been provided as grants subsidising fees related to the guarantees. From [2024 onwards](#), fee subsidies on guarantees that cover private finance can be reported as ODA.
- **Inspiring others to use guarantees for sustainable development:** In 2021, the Government of Denmark launched a four-year [pilot guarantee facility modelled on Sida's example](#). Sida was closely involved in its development – sharing its lessons, experiences and competences. Looking ahead, Sida plans to increase the use of guarantees geared towards development impact by growing its partnerships, sharing its learnings and know-how with other partners.

Lessons learnt

Over the years, [Sida's guarantee instrument](#) has evolved through key relationships and features which have helped to strengthen it. Some key lessons include:

- **Impact evaluation needs to be incorporated from the outset.** Sida sees financial instruments such as guarantees as part of the solution for financing meaningful development impacts on the ground. Robust impact evaluation systems are key for measuring these impacts and need to be incorporated from the outset.
- **Working with other relevant bodies brings synergies:** Sida partners closely with the Swedish National Debt Office (NDO) on risk assessments and pricing, amongst other things. This leverages both institutions' comparative advantages and skillsets.
- **Institutional capacity and familiarity need to be developed:** Sida's staff were traditionally more familiar with grants than guarantees, which tend to be more complex and time-consuming to set up. Financial understanding and skills needed to be built across the organisation through both capacity building and targeted hiring of financial professionals.
- **Partnering can increase peer learning and the scale of guarantee instruments:** Sida established a strategic partnership with USAID (now USAID and US International Development Finance Corporation) to extend co-guarantees in the early 2000s and has since continued to partner with other like-minded guarantors. These partnerships are an important opportunity for peer learning and the development of more standardised products. They are also a way to explore opportunities to reach a larger scale than can be achieved by standalone bilateral guarantees.

Further information

Convergence Blended Finance (2022), *Profiling Sida's Guarantee Programme*, Convergence Knowledge Building Report, www.convergence.finance/resource/profiling-sidas-guarantee-programme/view

Sida (2022), *Guarantee Portfolio*, https://cdn.sida.se/app/uploads/2022/09/13120328/10206362_Sida_Guarantee_Portfolio_2021_web.pdf

OECD resources

Garbacz W., D. Vilalta and L. Moller (2021), "The role of guarantees in blended finance", *OECD Development Co-operation Working Papers*, No 97, OECD Publishing, Paris, <https://doi.org/10.1787/730e1498-en>.

OECD (2019), *Development Co-operation Peer Reviews: Sweden, 2019*, OECD Development Co-operation Peer Reviews, OECD Publishing, Paris, <https://doi.org/10.1787/9f83244b-en>

To learn more about Sweden's development co-operation see:

OECD, "Sweden", in *Development Co-operation Profiles*, OECD Publishing, Paris, <https://doi.org/10.1787/8a6be3b3-en>

See more *In Practice* examples from Sweden here: www.oecd.org/development-cooperation-learning?tag-key+partner=sweden

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