CAMÕES
INSTITUTO
DA COOPERAÇÃO
E DA LÍNGUA
PORTUGAL
MINISTÉRIO DOS NEGÓCIOS ESTRANGEIROS

EVALUATION OF THE ACTIONS FOR THE PROMOTION OF DEVELOPMENT CARRIED OUT BY SOFID OVER THE PERIOD 2007-2014

FINAL REPORT

EXECUTIVE SUMMARY

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This evaluation
was carried out by

ceso

DEVELOPMENT
CONSULTANTS

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This document is the Executive Summary of the final version of the Evaluation of actions for the promotion of development carried out by SOFID over the period 2007-2014. It includes comments made by stakeholders during the presentation session of the preliminary version, which took place on 21/12/2016

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LISTA DE ABREVIATURAS

AICEP	Portuguese Agency for Investment and Foreign Trade
ODA	Official Development Assistance
TA	Technical Assistance
BCP	Banco Comercial Português
BES	Banco Espírito Santo
BPI	Banco Português de Investimento
BRICS	Brazil, Russia, India, China and South Africa
DAC	Development Assistance Committee
CAF	Andean Development Corporation (Latin American Development Bank)
CGD	Caixa Geral de Depósitos
CAMÕES, I.P.	Camões – Institute for Cooperation and Language, I.P.
COFIDES	Spanish development financing company (Em EN)
CPLP	Community of Portuguese Speaking Countries
DEG	German Investment and Development Company
DGTF	Directorate General of Treasury and Finance
EBITDA	Earnings before interest, Taxes, Depreciation and Amortization
EDFI	European Development Finance Institutions
ELO	Portuguese Association for Economic Development and Cooperation
ESAG	Economic, Social, Environmental, Corporate Governance
FECOP	Portuguese Business Cooperation Fund
FISEA	Investment and Support Fund for Businesses in Africa
FMO	Netherlands Development Finance Company (Business Development Bank)
GAA	Monitoring and Evaluation Office
GPEARI	Office for Strategy, Planning, Evaluation and International Relations
GPR	Corporate Policy for Project Classification
FDI	Foreign Direct Investment
IFC	International Finance Corporation
DFI	Development Finance Institution
INVESTIMOZ	Portuguese Aid and Investment Fund for Mozambique
IPAD	Portuguese Institute for Development Support
ITF	European Union- Africa Infrastructure Trust Fund
KFW	German Development Bank
LAIF	Latin America Investment Facility
NIF	Neighbourhood Investment Facility
NORFUND	Norwegian Investment Fiund for Developing Countries
OECD	Organisation for Economic Co-operation and Development
SDG	Sustainable Development Goals
NGO	Non- Governamental Organization
PALOP	Portuguese-speaking African Countries
SME	Small and Medium-sized Enterprises
PROPARCO	Society for the Promotion and Participation for Economic Cooperation (DFI partly owned by the French Development Agency)
ROE	Return on Equity

SOFID	Development Financing Company
ICT	Information and Communication Technologies
EU	European Union

FOREWORD

The present evaluation was carried out by CESO-Develoment Consultants (CESO), following its award through a tender launched by Camões – Instituto da Cooperação e da Língua, I.P. (Camões, I.P.). The award decision was made by the evaluation jury on the 18th of November 2015, the respective contract was signed on the 4th of February 2016, and the project was initiated one week later.

The evaluation was managed by the Evaluation and Audit Office of Camões, I.P., which joined the Monitoring Group for the Evaluation. The latter was also made up by SOFID representatives and articulated with the evaluation team during the critical phases of the exercise.

The CESO evaluation team consisted of:

- Helena Valente and João Rabaça, who lead the final revision of the methodology, carried out most of the interviews with stakeholders in Portugal, as well as the information collection and analysis and preparation of the final report. Additionally, Helena Valente travelled to South Africa and Mozambique, in order to visit projects supported by SOFID and consult with local stakeholders.
- Mariana Abrantes de Sousa, who participated in the information collection concerning the project portfolio and in the carrying out of an initial interview. On the 9th of June 2016 she excused herself from the team due to potential future incompatibilities.
- Elsa Sarmento, who participated in the project kick-off meetings and structuring of the methodological approach. In addition to this, she took part in an initial interview, as well as in the final revision of the report.

CESO's evaluation team would like to thank Camões, I.P. and SOFID for facilitating access to information for the numerous stakeholders, as well as for their availability to collaborate in this activity through the participation in interviews. In particular, the companies that sponsored projects were very helpful in their willingness to participate in surveys and in welcoming visits to the projects supported by SOFID (namely FRULACT South Africa (Pty), Ltd, Higest Moçambique, Lds., Construções JJR & Filhos Moçambique, Lda. e PREMAP – Prefabricados de Maputo, SARL).

This report is a product of its authors, who are responsible for the rigor of the information within it contained. The findings, conclusions, lessons and recommendations expressed in this document do not necessarily reflect the position of Camões I.P. or SOFID and were not influenced by any kind of conflict of interest.

EXECUTIVE SUMMARY

The positive correlation between job creation, economic growth and poverty reduction, reinforces the vital role that the private sector has to play in the mobilisation of resources. This, through the promotion of foreign direct investment in developing countries, in turn creates employment opportunities, increases productivity and fosters inclusive economic growth, therefore contributing to poverty reduction and to achieving the Sustainable Development Goals (SDGs).

It is within this context that the *Evaluation of actions for the promotion of development carried out by SOFID over the period 2007-2014*, aims to assess the institution's contribution, as an actor of the Portuguese Cooperation, to the reduction of poverty and promotion of development through its support to private sector development in partner countries. Additionally, this evaluation intends to identify lessons and conclusions and formulate recommendations that can be used both by SOFID's Board of Directors, as well as the Government institutions which oversee the Portuguese Cooperation.

This exercise was supported by the "theory based methods", with further recourse to "project evaluation" approach. Thus, the evaluation's methodological base was built on SOFID's intervention logic ("reconstructed" by the evaluation team based on the constitutive documents, strategic plans and the institution's reports), and acted as the reference for the application of the OECD's (Organisation for Economic Co-operation and Development) Development Assistance Committee's (DAC) evaluation criteria as well as for the definition of the evaluation matrix.

The evaluation therefore responds to 5 main questions:

1. To what extent are SOFID's positioning and intervention aligned with its mandate and with the priorities of the partner countries and of Portuguese Cooperation? (Relevance)
2. To what extent did the products and services offered by SOFID, and the synergies between cooperation and economic growth actors, facilitate investments from Portuguese companies in emerging and developing countries? (Effectiveness)
3. To what extent did SOFID's intervention and means, as a player in Portuguese Cooperation, guarantee private sector access to financial services and products? (Efficiency)
4. To what extent did projects supported by SOFID, produce effects on the development of partner countries? (Impact)
5. To what extent do the benefits resulting from projects supported by SOFID have conditions for their continuance beyond the end of the project, and to what extent are these benefits achieved in an environmentally and socially sustainable way? (Sustainability)

These main questions were sub-divided into 25 sub-questions, for which indicators were identified. The achievement of the latter acts as a foundation for the response to each sub-question (detailed evaluation matrix in Annex III).

The evaluation combined primary and secondary sources of information, as well as quantitative and qualitative collection methods, with recourse to participatory approaches. This allowed for triangulation, as well as analysis of the plausibility of the achieved results. With regards to the primary sources, interviews were carried out with stakeholders in Portugal, South Africa and Mozambique; an electronic survey was applied to project promoters that sought SOFID's support; and visits were carried out to locations of projects supported by SOFID. The secondary sources used include diverse documentation (namely about SOFID, other similar institutions, Portuguese Cooperation, beneficiary countries), as well as data from SOFID's *pipeline* and portfolio (from which the evaluation team built a database in *Excel* in order to facilitate the analysis). The evaluation took place between February and December 2016.

FRAMEWORK

SOFID is the Portuguese Development Financing Institution (DFI) and although its track record is relatively short, it has faced various internal and external challenges. Created in 2007, SOFID has started to achieve some relevant results, which include contributing to the setting up or expansion of Portuguese companies in foreign markets, under conditions which the traditional banking system is not able to offer. It is therefore relevant to carry out a balance of SOFID's performance in terms of development promotion, by looking at its positioning and internal procedures, as well as at the investment projects that it carried out up to 2014, and comparing this experience with the good practices of similar entities.

SUMMARY OF RESULTS

Relevance

SOFID's strategic plans prioritise small and medium- sized enterprise (SME) projects. This is in keeping with its mandate since SMEs constitute the vast majority of the national business fabric and face the highest levels of difficulty in accessing financing for their projects thus including a component of additionality in SOFID's support.

Geographically speaking, SOFID prioritises interventions in members of the Portuguese Speaking Community (CPLP), neighbouring countries, emerging economies, as well as countries with large concentrations of the Portuguese Diaspora. This wide breadth of presence is, however, not accompanied by sufficient resources to allow for effective support to be given to promoters, based on in-depth knowledge of the realities in each country.

The organization's plans also enumerate a relatively high number of strategic sectors, based on the perceived added value of national companies.

Although the number of projects contracted during the period of analysis (17) was not quite in keeping with the goals established (25), the operations are aligned with its strategic orientations in terms of the type of companies (all are SMEs), the priority countries and sectors, as well as with the priorities defined in the partner country documents, which lay out their development strategy.

Portuguese Cooperation concentrates its intervention in Portuguese- speaking African countries (PALOP) and Timor Leste, as well as in sectors where national institutions can contribute to poverty reduction. SOFID on the other hand, prioritises a wider range of countries – even though in practice there is a concentration in PALOP countries, and in sectors aligned with the greatest potential for Portuguese SMEs. This said, there is no existing strategic or operational articulation between SOFID and the Portuguese Cooperation, namely Camões I.P.. This lack of articulation results in part from the absence of a clear vision by Camões I.P. as to how private sector participation can contribute to poverty reduction, as well as due to the low priority given by SOFID to the impact of its actions in the scope of development promotion.

The support given by SOFID was considered additional by some stakeholders, either due to their intervention in conditions different to those in commercial banking (risk sharing and longer terms) or due to their specific knowledge of the target countries' market.

Effectiveness

In just under seven years, SOFID approved 45 out of the 50 financing proposals received, and signed 17 contracts with Portuguese companies that invested in developing countries and development. These contracts amounted to 17,57 million Euros, of which 54% represented bank guarantees for obtaining financing in local credit institutions and 46% corresponded to loans to parent companies that in turn lent to their subsidiary companies in the countries to which the investment was destined. These supports allowed for the leveraging of other funds in the amount of 50,56 million Euros, of which 52% correspond to promoters own capital and 48% to debt capital.

Contrary to some of its counterparts, SOFID does not offer local currency loans, which means it transfers the foreign exchange risk to the promoters.

In addition to this, SOFID is limited in its capacity to cover country- risk since, in the absence of a sovereign guarantee, it can only do so by transferring this cost to the project, which the promoters do not perceive as justified.

Among the projects carried out by SOFID, the predominance of the Mozambique market stands out, with eight of the 17 operations and 37% of the total value, followed by Angola with three projects and 25% of the total value. Projects were also contracted in Mexico and Brazil (two operations per country), and in South Africa and Morocco (one project in each country). The Commerce and Services, Agro industry and Industry sectors concentrated 10,82 million Euros of the support contracted by SOFID through 13 projects.

Despite the relevance of the Mozambican market, SOFID does not have a local presence which would allow it to monitor ongoing projects and identify new opportunities.

SOFID does not promote local identification of projects, namely through an analysis of national and sectorial development plans and in connection with local investment promotion agencies in the beneficiary countries of each intervention.

SOFID formalised more than thirty collaboration protocols with national institutions – including with some members of the Strategic Council -, but did not define processes to promote an articulated strategy of intervention with these institutions, aiming to take advantage of the synergies to strengthen the feasibility of investments.

During the period under analysis eight operations were approved within the Framework of the Portuguese Investment Cooperation Fund in Mozambique (Investimoz), which is managed by SOFID, but no contract was signed. This underutilization of the Fund represents an opportunity loss for SOFID, as investment in a country that registers high levels of demand by Portuguese companies would constitute an additional source of capital for the Institution's scarce resources. It should be noted that InvestimoZ supports projects through equity participation, which requires a more direct intervention by SOFID in the management of the supported companies and which is difficult to secure with the current levels of resources available to the institution.

Efficiency

From the analysis carried out over the period, it was found that the financial, human, material and technical means at SOFID's disposal were clearly insufficient for the full achievement of its mandate: the company's social capital did not go beyond 10 million Euros (half of the value envisaged in the initial business plan), which constitutes a significant limit to its growth; it relied on 14 employees including three board members, one director and a team of ten technical staff (three part-time) that were tasked with ensuring a DFI's operation cycle and compliance with the regulator's requirements (limiting its availability to introduce improvements such as in the processes relating to development impacts); with regards to the technical means, there was no information system in place for management of either the *pipeline* or project portfolio. In addition, there is an absence of a monitoring system for registering the ongoing performance of projects (and in particular, of the impacts) or results of regular evaluations.

Since 2008, SOFID has been a member of the Association of European Development Finance Institutions (EDFI) and was designated by the Portuguese Government as the national representative of the group of financiers and/or intermediary with funding facilities promoted by the EU. This said, until 2014 it did not manage to carry out projects in collaboration with other DFIs, or receive other financing (mainly due to the low share of capital that it could bring to operations). There is also no specific evidence to suggest that good practices from these entities were transferred to SOFID's internal processes.

Project promoters benefitted from SOFID's advice concerning markets, its cycle of operations, as well as other bureaucratic aspects relating to financing requests, but the institution does not have specific instruments allowing it to support the definition of quality and sustainable projects (similar to other DFIs).

SOFID follows a standard methodology for the evaluation of financing requests, considering the commercial, construction, financial and country risks. On the other hand, the economic, social, environmental and corporate governance (ESAG) aspects are analysed in a superficial and relatively subjective way, due in most part to lack of information and to shortage of resources to implement a more sophisticated model of analysis (already adopted by other EDFI members), or even to allow frequent visits to project locations.

SOFID participated in the financing of projects with other national finance institutions (commercial banks), but it is usually the promoter that identifies the other entities. With regards to the local finance institutions (often these include the local branches of SOFID's shareholders banks), the latter intervened in at least five projects whereby bank guarantees were issued by SOFID.

The monitoring and evaluation procedures in place at SOFID, are mostly based on regular phone contact with promoters and the analysis of its reports and accounts. The monitoring visits to projects were infrequent (only 10 projects were visited during the period under analysis) and the frequency of such visits depended on strategies followed by each of the Administrations; most recently when these visits took place, they were carried out by the board of director and were therefore mainly of an institutional, rather than technical nature.

Of the 17 operations contracted up to 2014, in the beginning of 2016 only one operation failed to get started and two were cancelled (in cases where the promoter went bankrupt).

There appears to be a large disparity between the promotion efforts carried out (between 2008 and 2014, 1.517 meetings took place with companies potentially interested in promoting projects), and the number of financing requests received (50), which indicates an absence of segmentation of potential clients and differentiated strategies for each segment.

It is relevant to note that of the 45 projects approved, only 17 were effectively contracted. Main causes for this include the difficulty faced by promoters in providing guarantees, their deciding not to go forward, their opting for other financing solutions or citing “commercial reasons”. Furthermore, the information points to the fact that the promoters find the contracting process to be slow and complex.

Of the 17 operations contracted between 2007 and 2014, two projects were cancelled for reasons of insolvency of the promoters and three are at risk due to having undertaken a special procedure for corporate recovery, to delays on their interest rate payments, or due to financial difficulties leading to processes of restructuring of their debt.

The collaboration protocols that SOFID formalised with several institutions, including some cooperation and economic growth actors in Portugal, are essentially focused on promotion of initiatives and dissemination of SOFID to potentially interested partners. Up until 2014, no approved projects resulted from a joint approach with these institutions.

Impact

During the process of analysing financing requests, SOFID attaches little importance to the development effects of projects, especially during the pre-analysis phases for which the indicators suggested for use by promoters are insufficient, while in the analysis phase the impacts are identified only in a generic way. Similarly, the ESAG effects of projects are not registered in a detailed way in the monitoring reports carried out by SOFID, to a large extent as a result of the lack of availability and sensibility of promoters in providing this information.

The information that was consolidated and collected within the scope of this work, has allowed for the identification of the following main effects resulting from projects supported by SOFID up to 2014: the creation of 1.753 jobs, the majority of which are locally contracted and benefit from training. Some of these projects fostered the transferral/improvement of technology and products/processes, and many also contributed to the reinforcement of national production in sectors with high potential for impact on economic development, as well as to an increase in exporting capacity of countries targeted by investments.

Although the projects supported by SOFID up to 2014 do register positive impacts, globally these are below the initial expectations of promoters.

Sustainability

SOFID has a code of conduct and applies the credit regulation in line with the obligations foreseen in the Legal Framework of Credit Institutions and Financial Companies. This said, with regards to the projects supported, there are no specific reports concerning their effects in terms of the promotion of development in the countries targeted by investments therefore preventing regular access to information concerning SOFID's action as an actor within Portuguese Cooperation.

In relation to the activities contracted within the countries under analysis, two of the 16 projects initiated were successfully concluded after 2014, and two were cancelled (due to bankruptcy sustained by the promoters). Seven ongoing projects with two or more years of operation, reported an average profitability of 16% and only one reported a negative value (8,25%).

The majority of the projects supported by SOFID did not foster the creation of local partnerships (in so far as the promoters did not give them particular value), but did allow for the creation of technical capacity in sectors with major gaps in some of the countries to which investments were destined, through the hiring and training of more than 1,700 workers, the majority of which are local.

CONCLUSIONS AND RECOMMENDATIONS

Relevance

SOFID has therefore demonstrated **medium relevance**, with a positioning in line with its mandate and actions allowing for the facilitation of 16 investment projects of Portuguese SMEs in emerging and developing countries, and operations in sectors globally aligned with the priorities of the countries to which investments were destined. However, SOFID defines a particularly broad range of target countries for its actions, which does not seem adequate to its available technical capacity.

During the period under analysis, the Government institutions which oversee SOFID and its shareholders displayed low levels of involvement in the process of defining and maintaining strategic orientations. Additionally, there was an absence of strategic articulation between SOFID and the Portuguese Cooperation.

In order to reinforce SOFID's relevance, the evaluation team recommends implementation of the following actions:

- Better define SOFID's supervisory structure - Government institutions which oversee its operation - and strengthen shareholder participation.
- **Ensure the existence of an active Board of Directors with consistent strategic orientations**, that can promote the strategic and operational articulation with other agents of economic development and cooperation policies, namely in the Business Development Agency (AICEP) and Camões, I.P.
- Better define the role of the private sector in the pursuit of cooperation policy objectives.
- Re-evaluate the geographical scope of SOFID's action, in order to adjust these priorities to the actual resources available. This could be achieved through greater concentration in markets where it possesses larger effective capacity or through active partnerships with other national institutions in the areas of economic development and cooperation.

Effectiveness

SOFID's action has demonstrated **medium-high effectiveness** in terms of the promotion of development. The institution's participation in the 17 projects contracted until 2014 – through bank guarantees and loans – that amounted to 17,57 million Euros, was multiplied by four, allowing investments in developing countries and emerging economies amounting to a total of 58,73 million Euros. It should however be noted, that a large number of the approved operations are then not contracted. This is also the situation of InvestimoZ that came into effect in May 2011 and whose management was awarded to SOFID, in which eight operations were approved until 2014, but none were contracted.

Additionally, SOFID offers no solution to the hedging of the foreign exchange and country-credit risks, the entirety of which are taken on by the promoters.

SOFID has weak presence in its target countries; does not develop local project identification actions as a complementary commercial approach, and nor does it count on local presence in markets of particular relevance to its actions – the case of Mozambique.

In order for SOFID to reinforce its effectiveness, the evaluation team _ the following actions to be implemented:

- Promote the effective participation of part-

ners in the promotion of SOFIDs offer, namely the Embassies, Camões I.P., AICEP, The Office for Planning, Strategy, Evaluation and International Relations (GPEARI) of the Ministry of Finances, the Chambers of Commerce and the business Associations;
- Promote local identification of potential projects, as a complementary commercial approach, and in cooperation with representatives of AICEP and Camões I.P. in the countries in which they are present.
- Set up a local representation in Mozambique, in order to promote the growth of the portfolio, for the stimulation of InvestimoZ, and ensure the monitoring of ongoing operations (SOFID and InvestimoZ);
- **Develop and implement solutions for the hedging of the foreign exchange and country-credit risks**, adopting models similar to those used by other DFI's. This depends, in part, on the state's support in its role as shareholder;
- Explore business opportunities with other larger companies, in order to test new partnership models, including through the access to external funds associated to larger projects.

Efficiency

It was found that the **efficiency** of SOFID's action in the promotion of development was **medium-low**, due in large part to the scarcity of financial, human, material and technical capacity. SOFID is below the minimum operating threshold and therefore the absence of adequate means limits its capacity to improve its performance throughout the project cycle (commercial action, analysis and contracting and monitoring), whilst at the same time it must respond to its responsibilities as a regulated entity, towards the Bank of Portugal as well as towards the state as a shareholder.

On the other hand, potential synergies between SOFID and other cooperation and economic growth actors are not taken advantage of, due to an absence of strategic orientation and operational articulation.

The ESAG impacts are undervalued both by the promoters in their development of financing proposals, as well as by SOFID in the evaluation of proposals and during the subsequent monitoring throughout the project.

Additionally, a large share of projects are approved but not contracted, which indicates a weak level of efficiency in the utilisation of the Society's resources.

In order to improve SOFID's level of efficiency, the evaluation team recommends implementing the following actions::

- Increase the institution's financial capacity, in particular to allow the financing of more projects (namely through an increase in SOFID's social capital) and offer other support typologies (for necessary tasks such as the conclusion of the certification process for management of EU's innovative financial instruments/Blending);
- Reinforce human resources both in terms of quality and quantity, so that SOFID is able to ensure the provision of timely and quality services, both at a commercial level, as well as in terms of monitoring and evaluation of projects;
- Promote the articulation between SOFID and Camões I.P., at an operational level;
- Promote the articulation between SOFID and AICEP., at an operational level;
- Enhance the interaction with the GPEARI;
- Promote collaboration with other DFIs, especially through the EDFI, in order to implement good practices.
- Define and implement a commercial strategy directed at different customer segments;
- Develop and divulge new instruments to support promoters in project preparation and monitoring;
- Review the Project contracting process in order to reduce the lag between approvals and signings, as well as the duration of the process;
- Strengthen the work tools, especially through information systems for management of the pipeline and projects portfolio, and for the monitoring and evaluation of their impacts.

Impact

SOFID's action in the field of development was found to have **medium impact**. Despite the lack of information, the projects that were contracted contributed, for the most part, to the stimulation of companies with positive economic results (6 out of seven projects with two or more years), to the creation of 1,753 mostly local jobs, and increased value given to workers' capacity through various training actions; the projects also ensured technology transfers and the carrying out of social responsibility actions.

The impacts verified at an environmental and of corporative governance level were less evident.

SOFID's interaction with other DFIs did not result in the adoption of good practices in the area of ESAG impact identification and monitoring.

However, on balance, SOFID concentrates mostly on risk analysis of financing proposals, fulfilling its role as a banking entity, and attributes less importance to the effect of projects in terms of development, namely in the commercial and project selection stages.

In order to improve impact, the evaluation team suggests:

- Promote greater valorisation of the ESAG criteria in SOFID's entire cycle of operations, prioritising projects that have a developmental impact, as well as monitoring and dissemination of achieved results, in a consistent manner.

Sustainability

SOFID's action in development demonstrates a **medium level in terms of sustainability**. The institution acts in a transparent and formal manner, but the dissemination of its action as a development actor has been limited. In terms of the operations supported, although most of the projects that have been ongoing for more than two years present good economic and financial indicators, the records in terms of its performance namely in terms of social and environmental effects are scarce. This limits the ability to provide a coherent assessment in terms of sustainability.

In order to improve the sustainability of SOFID's action, the evaluation team recommends that the following measure be implemented:

- Include consolidated information concerning project effects in the Society's yearly reports, in the triennial strategic balances and/or specific reports.