USAID
FROM THE AMERICAN PEOPLE

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FACT SHEET

USAID's Partial Credit Guarantees

Banks in many developing countries are very conservative in their lending practices. Much of their capital is invested in low-risk government bonds. When banks make loans, it is typically to established customers and subject to collateral requirements of 100% to 200%. As a result, many creditworthy borrowers are unable to access financing.

Description

The U.S. Agency for International Development (USAID) is working with the private sector in developing countries to expand investment in local development activities. Since 1999, USAID's field offices, or "missions" have used the Development Credit Authority (DCA) to facilitate these public-private partnerships.

DCA is a tool within USAID that enables the missions to provide partial credit guarantees for private-sector investments to reduce the risk associated with lending to new sectors or new borrowers. These guarantees help stimulate development by increasing the flow of credit to areas and activities that need it most. The four types of guarantees available can be used to target specific sectors where the need exists to encourage sustainable local economic growth, supporting a range of activities for local businesses, public health and education, agriculture, and infrastructure projects, just to name a few.

Mainstreaming / Sustainability

The Agency's guarantees are often complemented by USAID-assisted training to support a bank's ability to perform cash-flow analysis, due diligence and risk management on loans to underserved sectors. The combination of training and partial guarantees has introduced local financial institutions to new lending opportunities.

In addition to mobilizing financing for specific projects, partial guarantees help demonstrate to local banks that loans to underserved sectors can be profitable. This fosters self-sustained financing as lenders gain experience by making loans to businesses and for projects with reduced risk of loss. Over time, this experience can encourage lending on a continuous basis without the support of guarantees from USAID or other donors. Partial guarantees can be a powerful catalyst for unlocking the resources of private credit markets, spurring economic growth while advancing development objectives.

USAID is and will remain essentially a grant-funding agency; credit assistance using a partial guarantee is a flexible and effective complement to USAID's grant-funded development assistance.

For more detailed information about USAID's credit guarantees, please visit our website at: www.USAID.gov keyword: development credit

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Impact and Benefits of USAID's Partial Guarantees

Credit projects offer several distinct and very attractive advantages over other forms of assistance:

Promotes private-sector investment - Large reserves of untapped private capital are available within the private sector of developing countries. To encourage financial institutions to lend that capital for developmentally beneficial projects, credit guarantees can be used to cover part of the risk on new loans where financing had been unavailable or inaccessible.

Encourages lending by reducing risk - USAID guarantees up to 50 percent of the net loss on principal for investments, sharing the lender's risk on new loans to creditworthy borrowers.

Builds banks' lending capacities - Guarantees provide local financial institutions with the security to extend credit and expand into new sectors. In this way, banks invest in their capacity to lend into new and potentially profitable markets while increasing the credit available to developing areas. These guarantees are often coupled with training and professional assistance from USAID designed to strengthen a financial institution's long-term involvement in local credit markets, beyond the coverage of a USAID guarantee.

Demonstrates potential benefits of lending to areas perceived as high-risk - The benefits of partial credit guarantees are demonstrated by providing local partners with access to less expensive credit. Subsequently, by demonstrating the sustainability and profitability of development activities using that credit, local institutions are more likely to expand financial services to traditionally underrepresented economic sectors and social groups.

U.S. Government funding maximized - By using credit from local sources to finance development activities, $1 from the U.S. Government can generate up to US$50 in loans.

Types of Partial Guarantees

USAID guarantees up to 50 percent of the net loss on principal for investments, sharing the lender's risk on new loans to creditworthy borrowers. Credit guarantees are flexible and can be tailored to the needs of a specific financial partner or project:

Loan Guarantee – covers a single loan form a financial institution to a specified borrower.

Loan Portfolio Guarantee – covers many new loans from one financial institution to a group of borrowers, encouraging the lender to extend credit to specific under-served areas or sectors.

Portable Guarantee – given to a borrower to support their access to credit from a local bank. Once a lender is identified, the "portable" aspect transitions into a loan guarantee to that lender.

Bond Guarantee – supports the issuance of bonds by financial institutions, private corporations, or sub-national entities by covering repayments to investors in a bond issuance.

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