

Planning a DCA Guarantee

From Concept to Obligation

Contact EGAT/DC if you are considering a credit guarantee to enable EGAT/DC to be of as much assistance as possible. During this process a project development lead from EGAT/DC will assist you through every step via TDYs and email/phone correspondence.

Perform a Market Assessment

Early Fall – Late Spring

Request EGAT/DC to perform a market assessment to identify potential opportunities where a guarantee would add value. This involves someone from EGAT/DC coming on TDY for a week at no cost to the mission. The purpose of the TDY is to build off of a mission's concept by meeting with potential financial partners, mission staff, technical assistance providers, and others as necessary to explore potential DCA synergies. The market assessment provides the mission with an estimated subsidy cost that the mission pays for the guarantee.

Budget for the DCA

One month after Market Assessment

Include the DCA guarantee in your **Operational Plan**. DCA is an "implementing mechanism" at the program element level. For "Implementing Mechanism Type," enter "Third Party Managed." "Planned Funding" is the estimated subsidy cost. "Component Area" is 76-100% "other."

Structure the Terms

One month after Market Assessment

If the mission wants assistance, EGAT/DC is able to send a technical specialist from Washington at no cost for one week to facilitate this process. The terms of the guarantee include: choosing a financial partner(s), targeted sector, guarantee terms such as maximum cumulative disbursement, fees, targeted borrowers, tenor, etc.

Draft the Action Package

Two months after Market Assessment

The action package is USAID's primary internal document describing the guarantee, and is used for gaining approval from the Credit Review Board. The action package consists of an action memorandum, project information sheet, activity description, economic justification, and risk assessment. EGAT/DC and the mission will work together to draft the project information sheet, activity description, and economic justification of the guarantee. EGAT/DC is exclusively responsible for writing the risk assessment.

Collect financial information

Two months after Market Assessment

Collect financial information from banks and send to EGAT/DC for initial risk assessment. The more information the banks can provide before the risk analyst arrives from Washington, the easier and smoother the risk assessment.

Notify Congress

Spring/Summer

Include DCA in the mission's Congressional Budget Justification (CBJ) and/or the Congressional Notification (CN). Often a CN and CBJ can be avoided by participating in a DCA omnibus CN, coordinated by EGAT/DC. It is important that the mission's program office is aware that the mission is planning a DCA so that it can be involved in this important step.

Finalize the Term Sheet

Two months after Market Assessment

Finalize the term sheet drafted by the Regional Legal Adviser (RLA) and send to partner financial institutions. This term sheet will become the legal agreement, once signed, and is the basis on which negotiations with partner financial institutions are conducted. This is often the point when the partner institution's commitment to the terms of the guarantee are finalized.

Conduct the Risk Assessment

One month after Term Sheet sent

EGAT/DC performs a risk assessment of financial institutions and borrower cohorts involved in the guarantee. The risk assessment usually entails a one-week TDY by a risk officer from EGAT/DC. The risk analysis will produce the subsidy amount that the mission will pay.

Obtain Initial Environmental Examination

One week after Risk Assessment

The mission is responsible for completing the Initial Environmental Examination (IEE), if required, of the DCA guarantee activity. For loan portfolio guarantees, the mission should apply for the categorical exclusion set forth in 22 CFR 216.2(c)(x). For other types of DCA guarantees, the Mission should consider whether the guarantee falls under a broader program that has a program-wide IEE. When a Mission has completed an IEE for a DCA guarantee, the outcome has usually been a negative determination with conditions. Obtaining an environmental policy from the partner bank for the IEE has also proven helpful.

Finalize the legal agreement

Two weeks after Risk Assessment

Work with the RLA to negotiate and/or explain specific terms to the bank. Confirm that the bank agrees in principle to all the terms in the term sheet and the standard terms and conditions. The term sheet plus the standard terms and conditions will constitute the legal agreement.

Complete the Monitoring Plan

Four weeks after Risk Assessment

Work with the EGAT/DC regional portfolio manager to draft a monitoring plan for the life of the guarantee. The monitoring plan delineates the responsibilities of EGAT/DC and the mission during the life of the guarantee. The mission is responsible for collecting development indicators while EGAT/DC is responsible for financial monitoring.

Present to the Credit Review Board

Six Weeks after Risk Assessment

Obtain approval for the guarantee by the Credit Review Board (CRB) in Washington, which then recommends the guarantee to USAID's Chief Financial Officer. The mission activity manager will present in the meeting, usually via teleconference, to explain the structure and development objective of the guarantee, and will field questions.

Transfer Funds into DCA Program Account

Summer

Because DCA is a transfer authority, the guarantee subsidy amount must be moved from the mission to the DCA Program Account in the US Treasury. More information on the funds transfer process is available from EGAT/DC.

Sign Legal Agreement and Post Into Phoenix

NO LATER than September 30

Before signing, the controller must certify that funds are available to pay the subsidy cost. The Mission Director must sign the legal agreement after the bank has signed. The signed legal agreement constitutes the obligating document. The subsidy amount must be posted into Phoenix within the allotted grace period.