

**USAID**

**Development Credit Authority**

***Year in Review 2003***



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## *Contact Information*

### **Regional Managers**

Asia and Near East - Gabriel Grau - 202-712-0459

Africa - Jeremy Hagger - 202-712-4923

Latin America and Caribbean - Alison Eskesen - 202-712-5323

Europe and Eurasia - Sandra Goshgarian - 202-712-0382

### **Media and Communications**

Stavely Lord - 202-712-1157

U.S. Agency for International Development (USAID)

Office of Development Credit (EGAT/DC)

Ronald Reagan Building, Room 2.10

1300 Pennsylvania Avenue, NW

Washington, DC 20523-2100

Fax: (202) 216-3593

E-mail: [odc@usaid.gov](mailto:odc@usaid.gov)

<http://www.usaid.gov> keyword: Development Credit

# *A Letter of Introduction from USAID's Administrator...*



It is my pleasure to introduce USAID's Development Credit Authority loan guarantee summary, the Year in Review.

Five years ago, USAID's overseas missions started providing partial credit guarantees through a new and innovative financial tool called the Development Credit Authority (DCA). This authority enables USAID missions to issue partial loan and bond guarantees to private sector lenders, representing a public-private partnership that facilitates loans to creditworthy but underserved sectors. The use of DCA encourages and supports financial institutions in less developed countries to expand their lending into underserved geographic areas and markets where the lack of access to credit for borrowers is substantial. It encourages them to invest in themselves.

Since its inception, we have seen rapid growth in the use of DCA. Our missions are making DCA an integral part of their activities. USAID missions have already established nearly 80 guarantees, providing over \$590 million in available loans to sectors and businesses across all of USAID's geographic regions. This year, 2003, missions have signed up over 40 new guarantees, providing approximately \$290 million. These projects cover a wide-range of sectors, including microfinance, small and medium-size businesses, infrastructure, housing, agriculture and health.

One recent project in the Philippines has enabled small midwife clinics to access loans for the expansion of health services in poor and rural areas. Another important project in India covers investment in a bond offering that will help finance construction for clean water in several municipalities in the Indian state of Karnataka.

By sharing risk with these financial institutions, we are able to mobilize local capital for projects that advance development objectives and enhance economic growth in less developed countries. Our grant-funded technical assistance and policy reform efforts complement the use of these loan guarantees by, for example, training financial institutions on the use of credit guarantees and working with local governments to reduce banks' cash reserve requirements on outstanding loans.

I believe that we must continue to harness the energy and considerable resources of the private sector. We must do this in order to make a lasting and significant difference in the economies of our partner countries and in the lives of less fortunate citizens. Under my direction, Global Development Alliance was established as a means to reach that goal. As real public-private partnerships, each DCA-funded project is a path to the private sector.

I welcome your interest and encourage your participation in our activities. I fully expect and encourage the use of public-private sector partnerships to play a vital role in our development efforts. As we build on the knowledge and success of these and other public-private sector alliances, we continue in our efforts to engage the private sector of emerging nations in strengthening their local economies, and brightening the future for many people.

*Andrew S. Natsios*

Andrew S. Natsios  
Administrator, USAID

*DCA is "...our path to the private sector."*

*"The success DCA's credit guarantees have demonstrated offer considerable promise for the future."*

Administrator  
Natsios

# *The Development Credit Authority is...*

- **The legal authority allowing Missions to issue partial guarantees on loans made by private sector lenders;**
- **A means to encourage local capital funding of projects.**

In April 1999, the U.S. Agency for International Development (USAID) initiated the use of a new financing mechanism. It was developed to provide USAID Missions and staff with an innovative way to stimulate lending from the private sector instead of providing traditional donor assistance through grant-funded programs. This tool, the Development Credit Authority (DCA), offers partial loan and bond guarantees (up to 50 percent) to local financial institutions in countries and sectors where local access to credit is limited either by underdeveloped financial markets or other market failures such as overly-burdensome collateral requirements.

DCA is based on the premise that there are large reserves of dormant private capital in less-developed countries. Since its inception, the DCA mechanism has provided more than 90 guarantees, channeling resources to micro-enterprises, small and medium-scale businesses, farmers, mortgage markets and certain infrastructure sectors such as water and energy.

## *Benefits of DCA*

- Improved access to credit or loans** – there is a large reserve of untapped capital in the private sector, which presently, is not available to certain sectors and markets. The use of credit guarantees can provide the security to make that capital available for projects to develop key sectors and financial markets.
- Risk is shared to encourage lending** - DCA guarantees cover up to 50 percent of a lender's risk in providing financing and are often coupled with training and technical assistance designed to strengthen local financial institutions' long term interest in local credit markets, beyond DCA's support.
- Financing comes from local private sector** – credit guarantees encourage local financial institutions to provide the loan capital for projects that would otherwise be too costly or restricted by a lack of interested lenders in that sector.
- Banks learn by lending (“the demonstration effect”)** – by providing local financial institutions with access to credit, guarantees demonstrate that new markets can be viable and profitable.
- U.S. government funding maximized** - USAID can leverage up to 25 times the per-dollar-impact by using credit from local sources to finance development activities.

## *Description of Sectors*

- **Housing:** Develop housing mortgage lending and secondary mortgage markets
- **Small Medium Enterprise (SME):** Promote productive investment in small and medium sized enterprises
- **Agriculture:** Promote lending for agribusiness
- **Water:** Support investment in water supply initiatives
- **Infrastructure:** Support infrastructure investments for municipal service delivery
- **Environment:** Credit for environmental conservation and protection initiatives
- **Micro:** Private lending to micro enterprises
- **Health:** Investments in health and medicine
- **Energy:** Support for clean and sustainable energy
- **Education:** Develop private sector credit mechanisms to support education projects

# USAID's Credit Guarantees

Guarantees are typically implemented at the Mission level, in countries where USAID has a presence. A guarantee covers up to 50 percent of a lender's net loss on the guaranteed portion of the bond, loan, or portfolio of loans. Loans extended under DCA are provided to qualified, credit-worthy borrowers on commercial terms in local currency and/or U.S. dollars. DCA guarantees are flexible and can be tailored to meet the needs of a specific financial partner or project. As such, DCA mobilizes private capital, which supports the Agency's global economic growth development strategies. The credit mechanisms available through DCA include:

- **Loan Guarantees (LG)**

A loan guarantee is a contract between the U.S. Government and a lender (usually a financial institution) whereby the U.S. Government assures repayment to the lender in the case of default by the borrower. The U.S. Government will only disburse funds to the lender if, and when, a borrower is unable or unwilling to repay the underlying loan.

- **Loan Portfolio Guarantees (LPG)**

A loan portfolio guarantee is a mechanism for sharing risk and financing multiple borrowers. Instead of the risk of one borrower defaulting, the repayment risk is spread among a number of similar borrowers. A local intermediary financial institution establishes a pool of loan funds with credit and underwriting standards to be met by multiple borrowers.

- **Portable Guarantees (PG)**

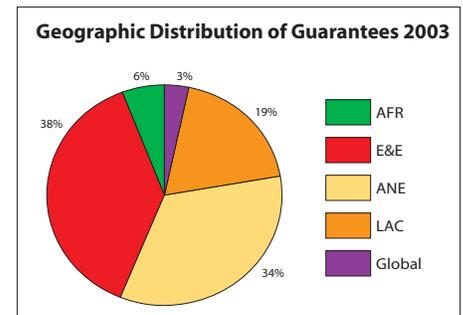
Portable guarantees are reserved for potential DCA borrowers that need assistance in accessing commercial loans. USAID provides the commitment of a loan guarantee to the borrower.

- **Bond Guarantees (BG)**

Bond guarantees support the issuance of bonds by financial institutions, private sector companies, or sub-national entities. The funds generated from the bond issuance can, for example, assist in raising local funds to initiate municipal infrastructure or utility projects, which require substantial upfront capital investments.

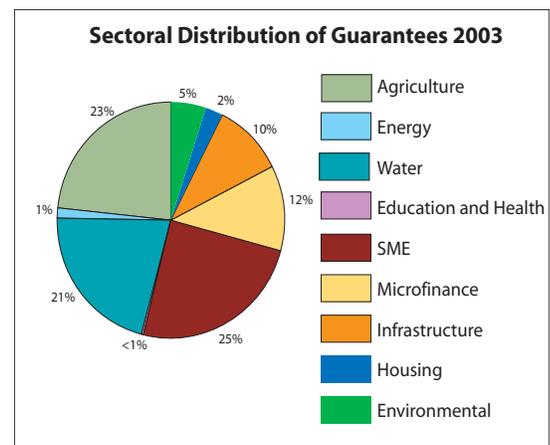
## Summary of 2003 Activities

<b>Number of DCA Projects</b>	<b>43</b>
<b>Total Amount of New Loans</b>	<b>\$291 million</b>
<b>-portion guaranteed</b>	<b>\$130 million</b>
<b>Cost to USAID:</b>	<b>\$10 million</b>
<b>Number of projects increased by:</b>	<b>88 percent</b>



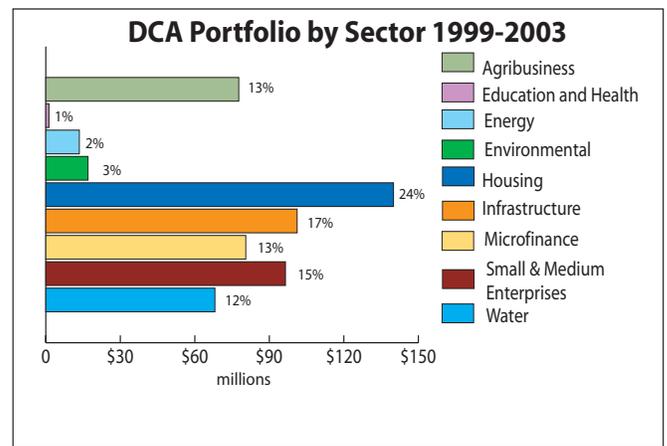
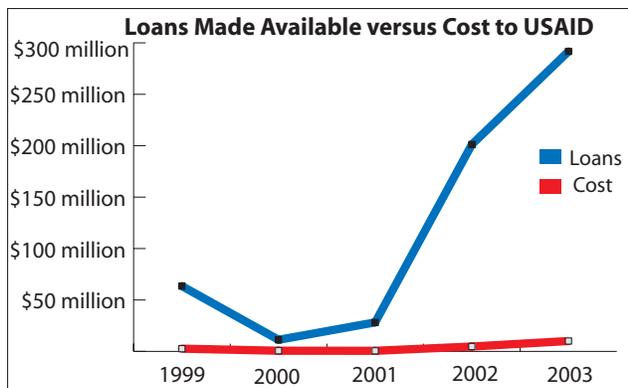
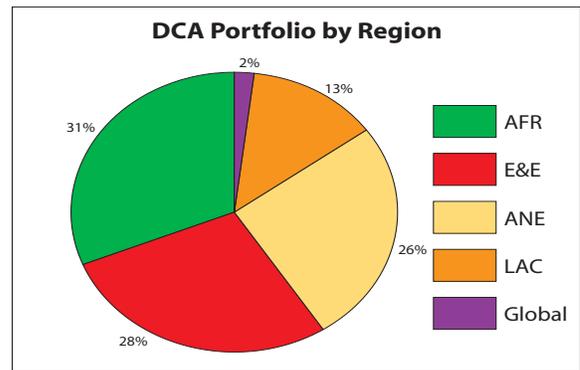
This year has been an exciting time in the development of loan guarantees. Many agreements have been signed, with Missions using innovative ways to make U.S. assistance operate in partnership with local financial institutions.

As you will see in the following pages, every region in the world has found a way to make financing accessible so that projects can get funding and businesses can grow. Typically unpopular sectors for lending, such as agriculture and small and medium sized businesses, are beginning to see capital flow from the private sector. These activities can draw the attention and interest of competing banks and can provide the educational opportunities and financial profit to encourage further lending beyond DCA's support.



# Summary of 1999 to 2003 Activities

<b>Number of DCA Projects</b>	78
<b>Total Amount of Loans</b>	\$596 million
<b>-portion guaranteed</b>	\$242 million
<b>Cost to USAID</b>	\$19 million
<b>Number of countries</b>	31



## Highlights of Innovative Guarantees

### Oikocredit: USAID Guarantees Go Global

The guarantee supports a \$2.0 million stand-by line-of-credit from Oikocredit, a Dutch development investment fund to Opportunity Transformation Investments (OTI), an investment fund established to make equity investments. The line-of-credit will provide additional flexibility for OTI to meet the short-term capital needs of its affiliates to meet statutory minimum capital requirements, to bridge financing for working capital, and other short-term capital needs.



*An Indian couple, the ultimate beneficiaries of a USAID bond guarantee, proudly display a copy of their new water bill.*

## India: Creating New Financial Markets

In India, small municipalities can now access financing to build and improve their water and wastewater systems. Until recently, these municipalities have had limited access to capital markets, but through USAID's credit guarantee, financing will now be pooled for lending to several municipal urban infrastructure projects. This new method of providing capital to large infrastructure projects will also increase the term length of municipal bonds, and provide these local governments access to private sector financial markets. Through the issuance of municipal bonds, municipalities can use the proceeds as collateral to borrow funds from the capital markets for much-needed water and sanitation projects. Municipalities can use the repayment from end-users to support the revolving loan fund. Alternately, banks can make loans to participating local governments by purchasing their bonds. By pooling debt in this manner, significant savings can be realized.

This type of financing is being made available to several urban areas in India to support water infrastructure development projects. The program in Tamil Nadu has made \$6.4 million available to municipalities participating in USAID's Development Credit Authority (DCA). Through DCA this pooled financing mechanism provides a cost-effective way for villages, towns and cities in Tamil Nadu to implement these projects.

The township of Valasaravakkam, with a population of 26,260, is one example of how creative financing under the right circumstances can generate valuable development opportunities. Until recently, Valasaravakkam has been relying on open and bore wells and three above-ground tanks, to gain access to the estimated two liters of water per person per day. Like many small communities, the financing required to upgrade the township's water system has been beyond their means. But with this new bond issuance and guarantee, Valasaravakkam can lay pipe from a safe source to two new underground large-capacity tanks. This construction, in conjunction with investments in new water pumps, will increase per capita water supply from two to 35 liters per person per day. The total project cost will be \$402,760, with 90 percent of the funds borrowed.

When complete, the access to clean water will benefit the entire town's population, half of which are poor, and should have a dramatic effect on their health.

## SpreadingHealth: Midwife Clinics in the Philippines

Currently, in the Philippines, there are roughly 140,000 registered midwives. Approximately 16,000 to 20,000 are employed with the public sector where the average annual salary ranges from the US Dollar equivalent of \$111 for nursing aides to a high of US\$148 for midwives working in the National Capital Region. Due to the low-level income potential, an estimated 5,000-10,000 have moved overseas to work as domestic helpers. The resulting lack of adequate healthcare services presents a serious issue for low to moderate income women in need of family planning, maternal and childcare services.



Since 1995, USAID's mission in the Philippines has relied on grant-funded assistance to establish a network of privately-owned midwife clinics. To transition away from such external funding in the coming year, the mission has set up a long-term solution that provides financing on a more sustainable basis. USAID is providing a guarantee to the Opportunity Microfinance Bank (OMB) on its portfolio of loans made to midwife clinics that are members of the social franchise known as the Well Family Midwife Clinics Partnerships Foundation. These DCA-backed loans are financing the expansion and improvement of clinics for 250 existing franchises.

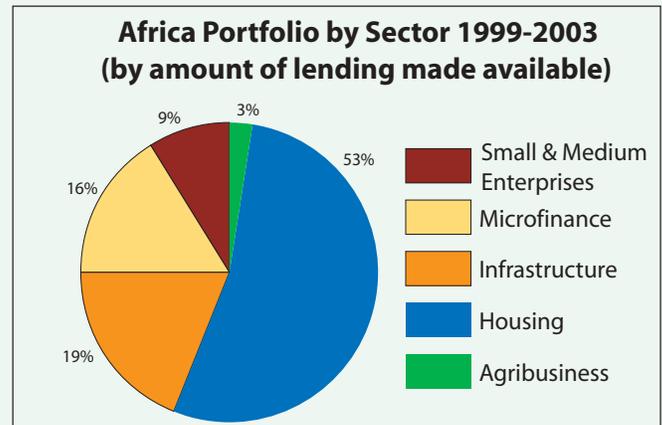
# Africa

## 2003 at a Glance

Number of DCA Projects	5
Total Amount of New Loans	\$17 million
-portion guaranteed	\$9 million
Number of Countries	2

## Overview of 1999-2003

Number of DCA Projects	17
Total Amount of New Loans	\$185 million
-portion guaranteed	\$61 million
Number of Countries	5



Secretary of State Colin Powell addresses delegates at the World Summit on Sustainable Development.



## Water for the Poor Initiative

In August 2002, the World Summit on Sustainable Development (WSSD) made a declaration from Johannesburg, South Africa to expand access to clean water and sanitation services.

The U.S. proposed total funding commitments of \$510 million over the next three years for water supply, sanitation and health activities. Of this, the U.S. proposed a \$45 million investment in local currency investment guarantees, coupled with technical assistance, to encourage private investment in water services for USAID client countries around the world — leveraging as much as \$600 million in additional resources for developing countries around the world.

Over the last year, through the use of risk-sharing guarantees, USAID has developed and implemented four projects to improve water and sanitation systems in India, Egypt, Morocco, and Bosnia. These projects will mobilize nearly \$100 million in local currency financing. Instead of using US Government grants for direct project funding, these credit guarantees pro-

## New Loans in 2003



vide the security for private financial institutions to offer their capital as loans for local development projects such as these.



Many people typically obtain their daily water supply on foot. DCA guarantees are providing other options.

Other sanitation projects using USAID's DCA partial loan guarantees have mobilized nearly \$70 million of private financing. Combined, these programs should bring improved water services to more than four million people.



## Ghana

Ecobank – Loan Portfolio Guarantee  
SME/Agriculture \$3 million/ \$1.5 million

This DCA facility increases financial intermediation and strengthens the productive capacity of private enterprises and the management capacity of production and marketing enterprises. Loans will be made to microfinance institutions and micro, small and medium enterprises to improve access to commercial financing and to promote the development of competitive private enterprises in Ghana.

Standard Charter Bank - Loan Portfolio Guarantee  
SME \$10 million/ \$5 million

This guarantee is combined with the above project in Ghana to make a total of US\$13 million available as financing in various business sectors and to leverage the financing from local funds to both emerging small and medium enterprises and the micro-enterprise sector.

## Kenya

Coop Bank - Loan Portfolio Guarantee  
Agriculture/Trade/Tourism \$1 million/ \$500,000

Coop Bank- SMEP - Loan Guarantee  
SME/Microfinance \$1.5 million/ \$750,000

Stanbic Bank- Faula - Loan Guarantee  
SME/Microfinance \$1.5 million/ \$750,000

The first guarantee is designed to partially cover a portfolio of loans to support commercial bank lending with particular attention to the agriculture sector, as well as tourism and trade. The sectors and/or borrowers include private sector enterprises involved in maize, dairy, horticulture, agribusiness processing, and storage capacity, microfinance institutions (MFIs) and NGOs. The second two financial institutions will make loans for on-lending to micro, small and medium size enterprises.



*Microenterprise businesswomen such as Kenda Mumbawe can get space in the commercial shopping area with a loan from SMEP.*

## Expanding Economic Opportunities for Microenterprises in Kenya

Lack of long-term commercial financing from the private sector remains a major obstacle both to the development of competitive enterprises, and to the overall economic and social development of Kenya. Domestic lending is the most important source of investment and working capital, particularly where access to international funding is extremely limited, and equity and debt finance through the securities markets is largely underdeveloped.

In Kenya, less than 20 percent of the population has access to financial services. Financial services are mainly located in major urban centers and provide services to larger enterprises and more affluent households than the average Kenyan. In addition, over 80 percent of Kenyans live in rural areas and a majority earns their living from small scale agriculture or off-farm activities.

To address these constraints to economic development, USAID's mission has used DCA to extend a loan guarantee to the Cooperative Bank of Kenya. Through it, USAID covers up to 50 percent of the bank's risk exposure on the principal amount of loans extended under the guarantee to two microenterprise institutions, Faulu Kenya Limited and the Small and Microenterprise Program (SMEP).

The guarantee is designed to help Faulu and SMEP access commercial financing to lend to their clients, a membership exceeding 35,000 Kenyans operating their own micro and small businesses in rural areas. These loans from the Cooperative Bank help Faulu and SMEP address some of the challenges that create poverty while increasing the financial benefits to an even larger group.

# Asia & Near East

## 2003 at a Glance

Number of DCA Projects	12
Total Amount of New Loans	\$99 million
-portion guaranteed	\$50 million
Number of Countries	6

## Overview of 1999-2003

Number of DCA Projects	20
Total Amount of New Loans	\$151 million
-portion guaranteed	\$69 million
Number of Countries	6

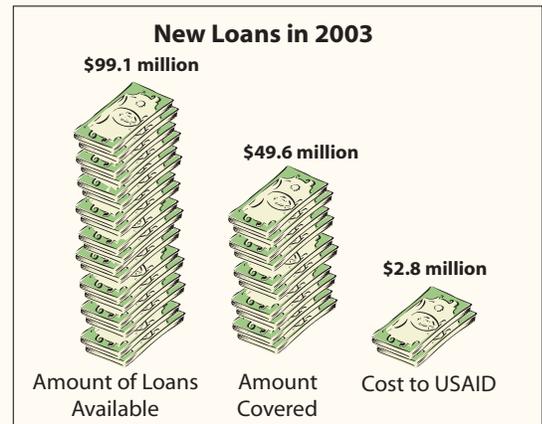
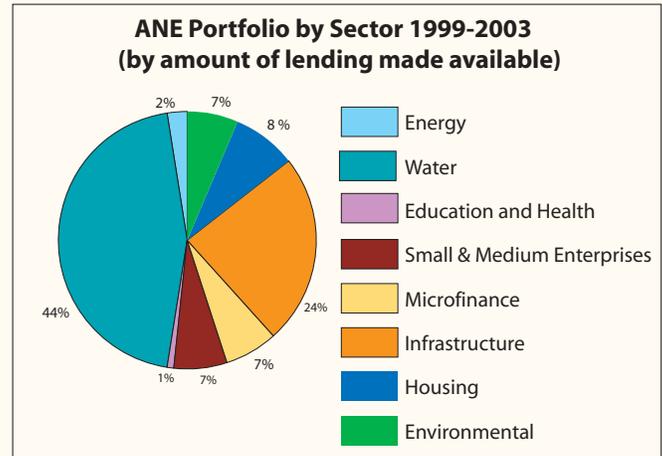


Egypt's mission director Kenneth Ellis (seated foreground) and Egypt's minister of the Environment (seated left) sign a USAID credit guarantee for water projects in urban areas.

## Egypt Invests in Clean Water

In Egypt, USAID's mission is using a DCA loan portfolio guarantee to invest in water projects across the country. The U.S. Government investment of under \$1 million through DCA will make the Egyptian currency equivalent of approximately \$40 million available in loans from local private banks to locally based businesses.

The activities being financed will improve and expand water and wastewater services provided to municipalities for the delivery of clean water for 50,000 Egyptians living in outlying areas who currently have no piped wastewater systems. The activities will also lower water bills for 200,000 families and businesses and provide cheaper and more extensive pipe maintenance and better customer service for a service area of three million customers.



## India

### Karnataka WSPF - Loan Portfolio Guarantee

Water

\$21.7 million/ \$10,850,000

In the Indian state of Karnataka, for example, USAID has set up a bond guarantee to raise \$21.7 million in capital from domestic investors. Proceeds from the bond offering will be used to improve and expand water supply and sewerage services through infrastructure development projects in 8 municipalities within the Bangalore Metropolitan Area. The projects are expected to improve water and sanitation services for nearly 500,000 people by 2021 at a leverage ratio of \$28 in loans for every \$1 spent by the U.S. government.

## Egypt

### National Société Générale Bank (NSGB) - Loan Portfolio Guarantee

Energy

\$10 million/ \$5 million

This project is a pilot effort to test how effectively and efficiently USAID's DCA guarantees can leverage private investment in a number of key sectors: (a) energy efficiency, particu-

larly cogeneration, (b) fuel switching to natural gas, and (c) nature tourism (ecotourism) in ecologically rich areas of the Red Sea Southern Zone.

## Morocco

### Zakoura -- Portable Guarantee

Microfinance \$4 million/ \$2 million

### Al-Amara - Microfinance - Portable Guarantee

Microfinance \$4 million/ \$2 million

These guarantees will help forge strategic partnerships between commercial banks that have the legal authority to engage in housing credit and microfinance institutions that understand the requirements of lending to lower-income people in Morocco. The guarantee allows these institutions to approach private lenders to access capital for on-lending to their clients.

### Fonds d'Equipment Communal (FEC) - Loan Portfolio Guarantee

Infrastructure \$4.7 million/ \$2.3 million

This DCA guarantee supports FEC in financing eligible projects that promote investment from commercial banks in local development and improve access to financing by local governments for sanitation infrastructural improvement projects. The loan portfolio guarantee is unique in that it allows FEC to transfer a portion of the guarantee to local private banks with a credit rating equal or better than FEC.

## Vietnam

### Asia Commercial Bank - Loan Portfolio Guarantee

Educational Lending \$500,000/ \$250,000

Through the use of this guarantee, students who pursue graduate degrees in economics and business administration at Vietnamese educational institutions can receive a loan from Asia Commercial Bank. The guarantee strongly supports USAID's goal to accelerate Vietnam's transition to a market-based economy that is open to the private sector and that can take advantage of increasing access to global markets.

### Asia Commercial Bank - Loan Portfolio Guarantee

SME \$5 million/ \$2.5 million

### Eastern Asia Commercial Bank - Loan Portfolio Guarantee

SME \$5 million/\$2.5 million

The guarantee will cover loans issued on commercial terms to promote increased lending to small and medium-sized enterprises, lengthen the term of available finance and encourage continued development and expansion of private sector financial intermediaries in Vietnam. The guarantee addresses market imperfections by reducing the collateral requirements for bankable projects and will increase the capacity of partner banks to assess credit quality on a non-collateral basis, generating several incentives for other banks to develop such skills and compete for this untapped debt market.

## Partnering for a Cleaner Environment in Bangladesh



*On September 30, 2003, USAID Mission Director Gene George signs a Development Credit Authority loan portfolio guarantee (LPG) agreement with the Hong Kong and Shanghai Banking Corporation (HSBC) in support of Bangladesh's new compressed natural gas sector.*

Recently, the Government of Bangladesh entered into a partnership with the United States to develop their sources of clean energy both to benefit the environment and to contribute to Bangladesh's economic growth. The energy sector, which operates using both power and hydrocarbons, is a developing sector with enormous potential for expansion. Such growth could have a substantial impact on the pace of economic development for the country.

Through a variety of activities, USAID's mission in Bangladesh is helping to increase the use of clean fuels, such as natural gas, to reduce greenhouse gases. USAID/Bangladesh believes that by enhancing institutional capacity, reducing system losses and encouraging policies that promote the use of cleaner fuels and that reduce the demand for energy through more efficient use, the country will benefit from accelerated economic growth and reduced emissions of harmful greenhouse gases.

To support the investment by private sector financial institutions in lending their capital to support these activities, USAID/Bangladesh has established a DCA Loan Portfolio Guarantee. This guarantee covers loans from the private sector to two types of enterprises: 1) new compressed natural gas (CNG) filling stations and 2) conversion workshops for the installation of CNG units in vehicles.

This guarantee helps encourage investment in the use of CNG as an alternative fuel. The guaranteed loans provide capital for entrepreneurs or relevant companies to utilize the available credit in setting up businesses that help to increase the use of CNG as a clean alternative fuel.

# Europe & Eurasia

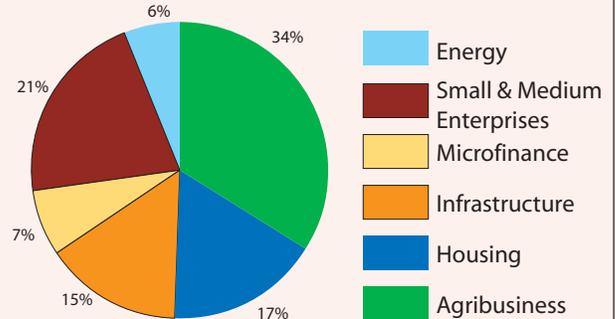
## 2003 at a Glance

Number of DCA Projects	14
Total Amount of New Loans	\$105 million
-portion guaranteed	\$41 million
Number of Countries	6

## Overview of 1999-2003

Number of DCA Projects	22
Total Amount of New Loans	\$167 million
-portion guaranteed	\$69 million
Number of Countries	6

**E&E Portfolio by Sector 1999-2003**  
(by amount of lending made available)



## Bosnia

Volksbank BH d.d. - Loan Portfolio Guarantee  
Infrastructure \$25 million/ \$10 million

The activity guarantees 50 percent of the lending portfolio of Volksbank BiH for revenue-generating investments at the municipal level that promote economic and environmental development while strengthening the fiscal autonomy of local governments.

Volksbank BH d.d. - Loan Portfolio Guarantee  
Agriculture \$12 million/ \$3 million

Zagrebacka BH Bank - Loan Portfolio Guarantee  
Agriculture \$9 million/ \$4.5 million

UPI Bank - Loan Portfolio Guarantee  
Agriculture \$5 million/ \$2.5 million

This DCA secures up to 50 percent of the loan principal on loans provided by VolksBank BH to enterprises in competitive sectors for agriculture production and processing, wood processing and tourism, with the ultimate objectives of increasing economic growth, employment and prosperity.

The other two guarantees cover up to 50 percent of the risk exposure on the principal amount of loans extended to qualifying non-sovereign borrowers defined as creditworthy private enterprises in sectors with potential for high competitiveness, i.e., agriculture production and processing, wood processing and tourism.

**New Loans in 2003**



## Armenia

Standard Credit OJSC - Bond Guarantee  
SME/Capital Markets \$12 million/ \$3 million

Standard Credit will issue a series of short-term corporate debt securities (commercial paper) to raise capital for loans to exporters expanding production. USAID will provide partial guarantees to purchasers of these securities to bolster investor confidence and stimulate investment. The project will increase financial intermediation in Armenian capital markets, introduce short term commercial paper as a new investment product and alternative source of financing, re-establish trust in financial instruments and attract and redirect investable resources back into the financial sector.

## Bulgaria

### Hebros Bank - Loan Portfolio Guarantee

Agriculture/SME      *\$10 million/ \$5 million*

### Post Bank - Loan Portfolio Guarantee

Agriculture/SME      *\$10 million/ \$5 million*

In order to address farmer's needs for working capital, USAID/Bulgaria is using this guarantee to promote bank lending to agriculture by (1) mitigating perceived risks, prohibitive collateral requirements, and collateral eligibility problems, and (2) building the participating banks' experience and capacity for lending to farmers and agriculture processors.

## Moldova

### Banca Sociala- Loan Portfolio Guarantee

Agriculture/SME      *\$1 million/ \$500,000*

### Mobiasbanca – Loan Portfolio Guarantee

Agriculture/SME      *\$4 million/\$2 million*

### Moldinconbank – Loan Portfolio Guarantee

Agriculture/SME      *\$2 million/\$1 million*

### Rural Finance Corporation – Loan Portfolio Guarantee

Agriculture/SME      *\$1 million/ \$500,000*

The Credit Enhancement Project was established to increase access to credit for Moldova's small and medium enterprises (SMEs) and agriculture producers.

The project offers loan portfolio guarantees (LPG) to a variety of bank and non-bank financial institutions to partially (50 percent) cover losses resulting from their lending operations to SMEs and farmers. The project, at a later stage, will also be offering portable guarantees to a non-bank financial entity that will allow its holder to shop for loans to increase its liquidity from financial institutions.

## Romania

### Raiffeisen Zentralbank - Loan Guarantee

Housing      *\$7 million/ \$3.5 million*

Through DCA, USAID will partially guarantee loans made by Raiffeisen Bank to the Romanian-American Enterprise Fund (RAEF) to assist RAEF in mobilizing long-term financing for its mortgage lending initiative. The funds will be channeled through a non-bank financial institution created by RAEF, called Ro-Fin, to manage the \$7 million ten-year loan from Raiffeisen Bank. This loan combined with the infusion of capital provided by RAEF will provide Ro-Fin with the necessary long-term funding to commence operations and to finance mortgages to Romanian citizens for buying residential real estate.

## Russia

### SDM Bank – Loan Portfolio Guarantee

SME      *\$3 million/ \$1.5 million*

USAID's guarantee encourages SDM Bank to extend loans through its branches to commercially viable SMEs that have difficulty accessing credit in formal financial markets due to the perceived risks of lending to small businesses. This project helps mitigate such obstacles and helps SMEs acquire needed capital to expand their operations, contributing to the growth of this sector and increased employment opportunities.

## Boosting Access to Capital for Small and Medium-sized Enterprises in Armenia

In the 1990s, Armenia's property reform and privatization initiatives led to the formation of many new businesses. Unfortunately the results of these initiatives did not include a solution for the problems of unemployment, production of goods and services, and income. The SME-Finance Support Project (SME-FSP) was set up to increase access to credit for thousands of small and medium enterprises (SMEs). FSP encourages financial institutions to extend loans to commercially viable SMEs and agribusinesses, which generally do not have access to credit from the financial market due to the high risks and perceived disproportionately high transaction costs. The project offers loan portfolio guarantees to a variety of banks and non-bank financial institutions to partially (50 percent) cover losses on the principal amount of any loan to qualified borrowers.

Three specific and promising areas for increased lending include agribusinesses, which are the largest employers in the country, accounting for one fourth of Armenia's gross domestic product, and information technology, which is well placed to take advantage of the country's specialization in electronics from Soviet times and the involvement of the Armenian diaspora in information technology enterprises in such places as California's Silicon Valley. Finally, the preservation and promotion of Armenia's cultural heritage and tourism could have a direct impact on economic development, especially for SMEs. As a result, the tourism sector is widely seen as a potential source of growth in the Armenian economy.

# Latin America & the Caribbean

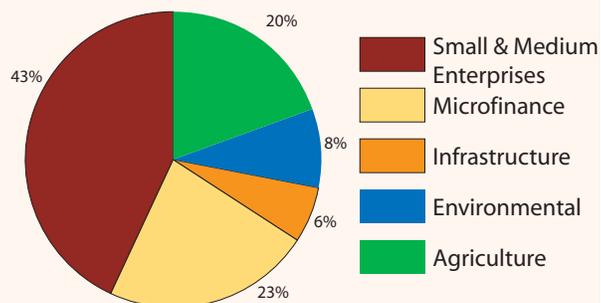
## 2003 at a Glance

Number of DCA Projects	9
Total Amount of New Loans	\$55 million
-portion guaranteed	\$28 million
Number of Countries	7

## Overview of 1999-2003

Number of DCA Projects	17
Total Amount of New Loans	\$81 million
-portion guaranteed	\$40 million
Number of Countries	10

**LAC Portfolio by Sector 1999-2003**  
(by amount of lending made available)



**New Loans in 2003**



## Guatemala: Increasing Availability of Loans to Rural Areas

In Guatemala's conservative banking environment, the formal banking sector has historically lent more than 90 percent of its portfolio within the capital's city limits. Bancafé, an established Guatemalan bank made a strategic decision to grow its micro loan business outside the capital into the rural areas. Borrowers include micro and small enterprises, small and medium agribusinesses, small and medium manufacturing firms, microfinance institutions, and tourism related activities.

To promote this rural lending, USAID provided a five year US\$20 million loan portfolio guarantee to Bancafé. The bank president views the use of USAID's loan portfolio guarantee as the right tool to support this initiative, which represents the creation and expansion of a market through a public-private partnership. The hope is that credit made available under this guarantee will support the Central American Free Trade Agreement by providing export-oriented businesses with access to sorely needed financing.

## Honduras

### Atlantida Bank - Loan Portfolio Guarantee

SME/Microfinance \$3 million/\$1.5 million

### Banco de Occidente - Loan Portfolio Guarantee

SME/Microfinance \$5 million/\$2.5 million

### Covelo - Loan Portfolio Guarantee

SME/Microfinance \$1 million/\$ 500,000

USAID/Honduras is using three DCA loan portfolio guarantees to stimulate private sector lending for micro, small and medium enterprises in agribusiness, light industry/manufacturing and tourism. These targeted sectors and enterprises provide significant economic growth opportunities, especially considering employment, investment and export potential.

## Central America: Making Production More Efficient

In order to improve production conditions and access to new markets with demanding environmental regulations, PROARCA has implemented a seven-year US\$10 million loan portfolio guarantee that helps to improve levels of efficiency and competitiveness

within the entrepreneurial sector of Central American countries. The guarantee provides capital for small and medium enterprises throughout Central America that utilize cleaner production practices, certification processes and environmental management systems. Developed to work with five financial institutions throughout the region, the guarantee is currently active in Nicaragua, El Salvador and Panama.

The guarantee helps to improve environmental management in the Mesoamerican Biological Corridor. Initially three sectors are targeted: agribusiness, tourism, and municipalities. Agribusiness, characterized by unsustainable environmental practices, receives funds to improve the competitiveness of their products in international markets in compliance with the Central American Free Trade Agreement. The tourism sector also receives assistance that greatly affects the growing trend of ecotourism programs, helping to improve each country's gross domestic product. Finally, municipalities also face environmental issues, namely how to increase the adoption of improved environmental management systems in their operations. Projects in the municipal arena include water projects such as potable water distribution and waste water disposal

### Jamaica

RBTT Bank Jamaica Ltd. - Loan Portfolio Guarantee  
Environmental      \$5 million/\$2.5 million

The DCA facilitates lending to small and medium-sized hotels and manufacturing firms for environmental retrofitting projects including the installation of new and improved equipment for energy efficiency and water conservation, and for activities including business expansion, fixed asset improvement, working capital and equipment purchases.

Using this guarantee, USAID can attract the necessary investments from local commercial bank/s to stimulate the growth of SMME. Together with current USAID projects, the DCA guarantee will result in sustained economic growth in these sectors which may not have otherwise been met.

### Regional

Ecologic Enterprise Venture – Loan Portfolio Guarantee  
Agriculture      \$4 million/ \$2 million

This guarantee seeks to enhance trade and investment within Latin America and the Caribbean. EcoLogic Enterprise Ventures (EEV) operates as a “green” or ecologically enhancing loan fund, offering financing to eco-enterprises located in environmentally sensitive areas of Latin America. EEV's loans are targeted to small-scale producer organizations to support biodiversity, conservation and economic development in the production of exportable high-quality agricultural products.

## Reducing Poverty in Peru

USAID's mission in Peru has a program set up for alternative development options to help expand the availability of private sector financial resources to structure and organize crop-production value chains. These sources of private capital are diversified among rural savings and loan banks, buyers, and input suppliers.

Through the use of three five-year loan portfolio guarantees totaling US\$12 million, USAID/Peru's Poverty Reduction and Alleviation (PRA) program helps improve the quality of life for residents in and around Peru's principal coca-growing regions. These activities are geographically focused in the jungle areas of Peru that have high concentrations of poor people and extensive coca cultivation as well as significant potential for employment-generating activities through expanded production and trade.

The PRA program organizes and facilitates closed-market transactions between these financing sources and small-scale agriculture producers in the Alternative Development zones by creating upfront buyer-producer contracts, i.e. “contract farming,” with external financing needed to support the operational costs of the producer.

Loans, predominantly working capital in nature, are exclusively available for crop producers participating in the PRA-sponsored value chain development. The guarantee diminishes the risk perceived by private sector businesses and officers of local financial institutions to allow them to expand operations and increase their level of exposure to agribusiness in these areas. The loans support a market oriented approach to alternative development by: 1) Defining and structuring market opportunities for small scale agriculture producers; and 2) Facilitating access to credit for these producers who typically require financing to bridge the gap between initial cash flows and post harvest cash inflows.

