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Partial Credit Guarantees





Capital in Less Developed Countries

The long-standing situation...

- Limited availability or access to credit
- Inefficient and underdeveloped financial markets
- Stagnation of local economic growth
- Need for expansion into new sectors

At a closer look...

- Abundant excess liquidity
- Potential for further development of financial markets
- Investments can be profitable
- Need for effective methods to leverage those funds





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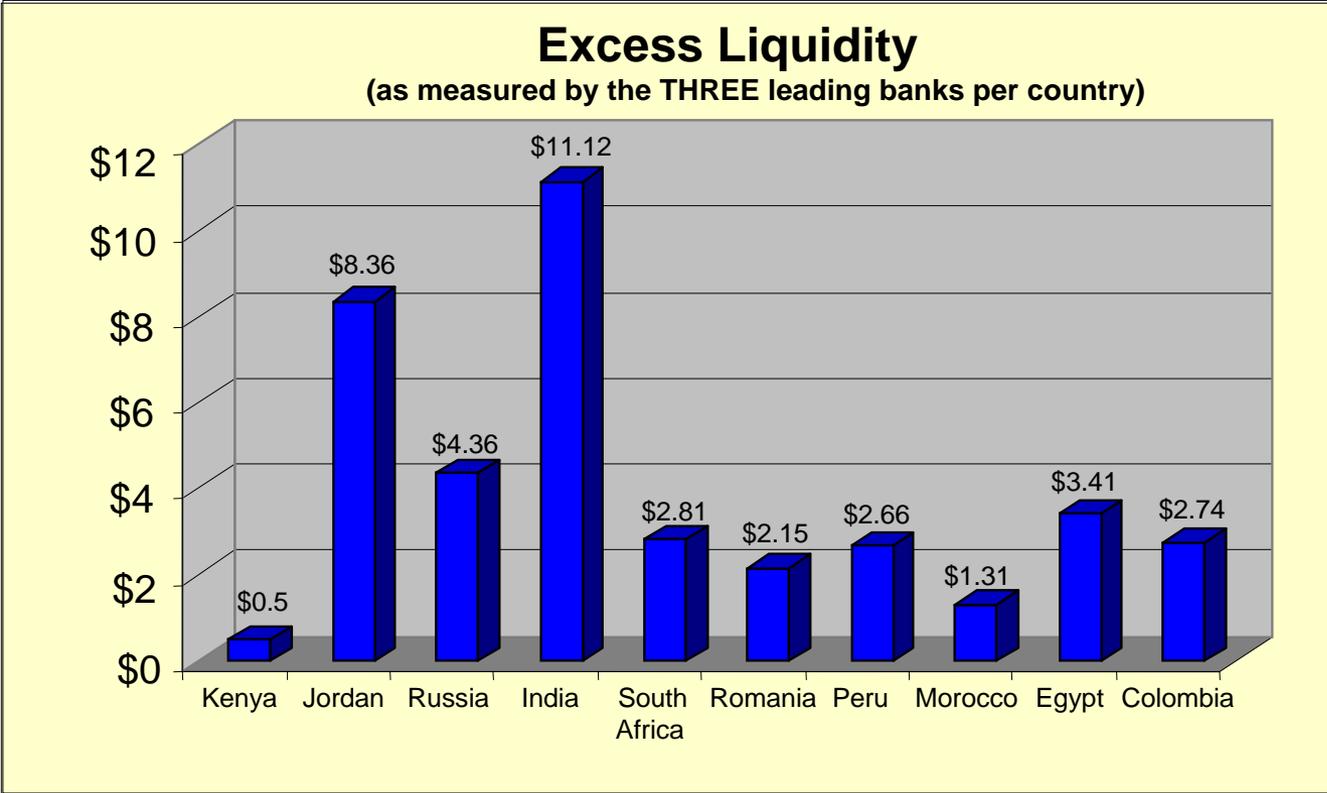
Premise of Credit Guarantees

- Abundance of creditworthy but underserved sectors – bankable projects exist!
- Huge reserves of dormant private capital in developing countries
- Long-term private sector led growth depends on mobilization and use of private capital locally.





Country Examples of Excess Capital





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One Innovative Financing Option

USAID's Development Credit Authority (DCA)

- The legal authority allowing Missions to issue partial guarantees on loans made by private sector lenders
- These guarantees provide a way to encourage local capital funding of projects.





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What Credit Guarantees do...

- **Encourage lending by local banks** to new sectors and increased financing to established development activities
- **Support financing of ‘bankable’ projects** that otherwise lack access to credit from private financial markets
- **Enable USAID to share loss with private sector partner on up to 50%** of principal for loans under coverage
- **Covers debt denominated in local currency**, so exchange rate risk is eliminated
- **Demonstrates the financial viability of lending** to promote interest by and expansion of participation in credit market
- **Complements USAID’s technical assistance to lenders and borrowers**, providing opportunity for development of sustainable credit to underserved borrowers.





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Benefits

Risk shared when borrower doesn't pay

- for every dollar loaned under guarantee, USAID will cover up to 50% of the principal

Technical assistance

- provides courses and hands-on work for banks and borrowers to learn by doing

Bank training

- improves knowledge base - ability to assess and manage risk

Uses banks' knowledge and resources

- banks have local expertise to decide what loans should be put under coverage
- banks share the risk, are able to perform the due diligence and monitor the loans

Creates partnerships with private sector businesses

- develops relationships and provides new business opportunities

Sustainability

- the education and relationship building remain, whether the USG is there or not





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USAID Guiding Principles for Credit Guarantees

- USAID Mission is the point of contact
- Financial institution must take at least 50% of risk
- Currency mismatches are strongly discouraged
- Market Imperfections
- Additionality; Guarantor of Last Resort
- Financial Viability
- Fees to encourage utilization





Types of Guarantees

Loan Guarantee

- Financial institution receives up to 50% coverage on principal amount of loan

Bond Guarantee

- Protects investors on a portion of a bond issuance. Used for municipal or private sector financing

Portable Guarantee

- A DCA letter of commitment allows borrower to seek best terms from financial markets

Portfolio Guarantee

- Financial institution receives up to 50% coverage on principal amount of a portfolio of loans they provide to their customers





Example – Agriculture

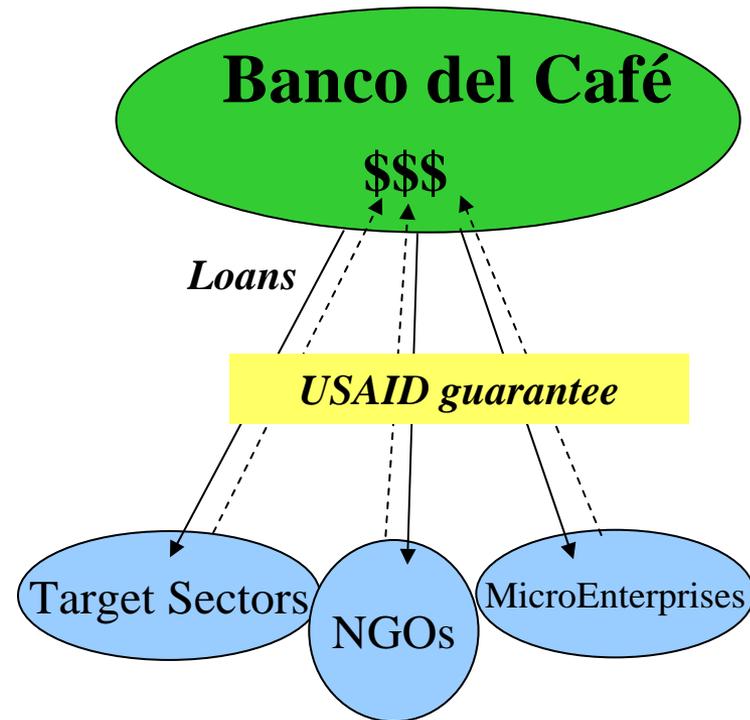
Guatemala

Loan Portfolio Guarantee

Total Loan Amount: \$5,000,000

Portion Guaranteed: \$2,500,000

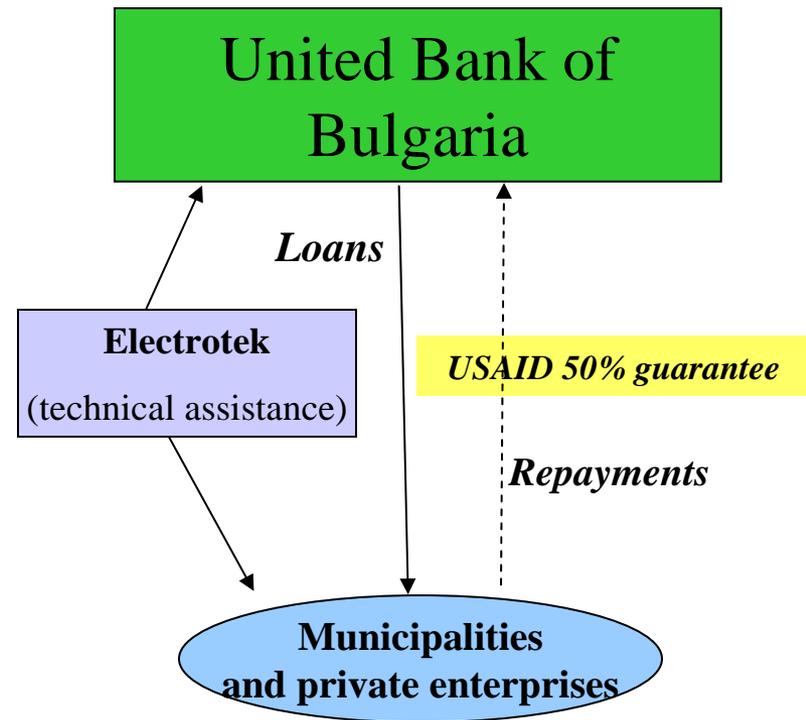
Purpose: To promote public and private sector investments in rural market towns to provide agribusinesses with expanded opportunities for processing and selling their products.





Example - Municipal Energy Infrastructure

- **Bulgaria**
- **Loan Portfolio Guarantee**
- **Total Loan Amount:**
\$10,000,000
- **Portion Guaranteed:**
\$5,000,000
- **Purpose:** Provides a guarantee to a bank that lends long-term funds to municipalities seeking to invest in energy efficient technologies.





Credit Guarantee Fees

Financial Institution

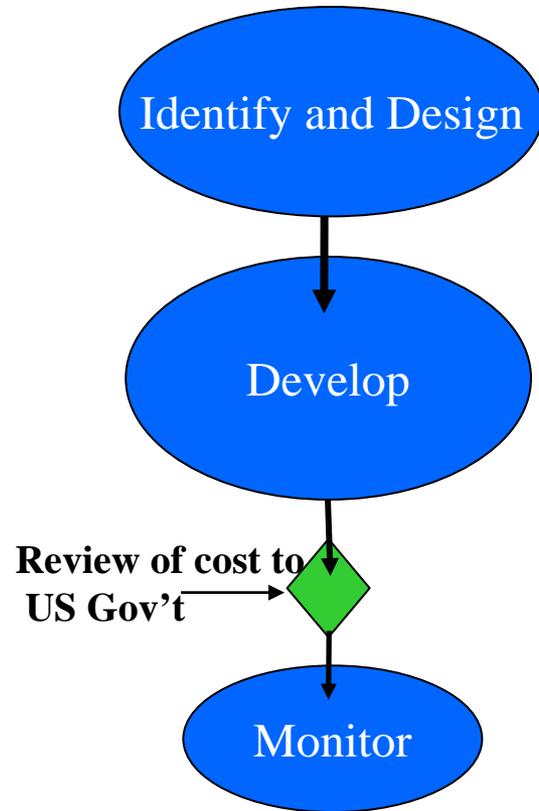
- **Origination fee** – commitment fee of .5% to 2.5%
- **Utilization fee** – charged on loans under coverage .5% to 2.5%

Note: There are no initial USAID funds transferred to DCA partners; USAID funds are only paid after a borrower defaults on its loan/bond.





Implementation Process



- Mission identifies and designs project, locates private sector partner (e.g., bank, non-bank financial institution, NGO, or municipal government)
- Package of information developed: economic and financial viability analyses, monitoring plan, fees
- An independent Credit Risk Assessment is done – reviews levels of risk for the country, lender, borrower and transaction components of the project
- **USAID's Credit Review Board reviews financial analysis and estimate of project's cost to USG**
- Bank reports on loans covered, fees collected and claims paid





Conditions for Use

- **Projects contribute to USAID Objectives outlines by mission**
- **Borrowers activity must have positive cash flows**
- **Risk is shared with private sector financial institution**
- **Host country participants commit to financial discipline**
- **Loan would not have been made w/out guarantee**
- **Projects address a market imperfection**
- **Used for non-sovereign, private sector activities, including private loans to municipalities**





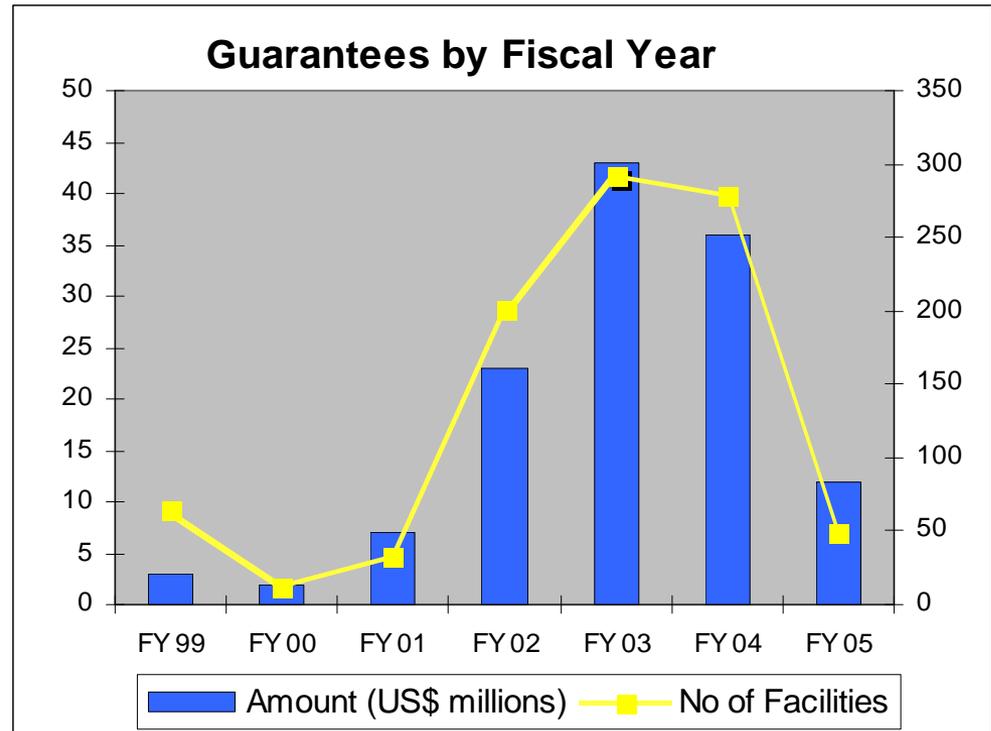
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USAID's Guarantee Portfolio to Date

126 guarantees

Total amount of credit available –
\$905 million

Portion guaranteed –
\$457 million





Guarantee Portfolio – Global Scope

Latin America & Caribbean

Central America
Ecuador
Grenada
Guatemala
Haiti
Honduras
Jamaica
Mexico
Nicaragua
Panama
Peru

Africa

Ethiopia
Ghana
Kenya
Mali
Rwanda
South Africa
Uganda
Zambia

Europe & Eurasia

Armenia
Bosnia
Bulgaria
Croatia
Kazakhstan
Kyrgyzstan
Moldova
Romania
Russia
Ukraine
Georgia

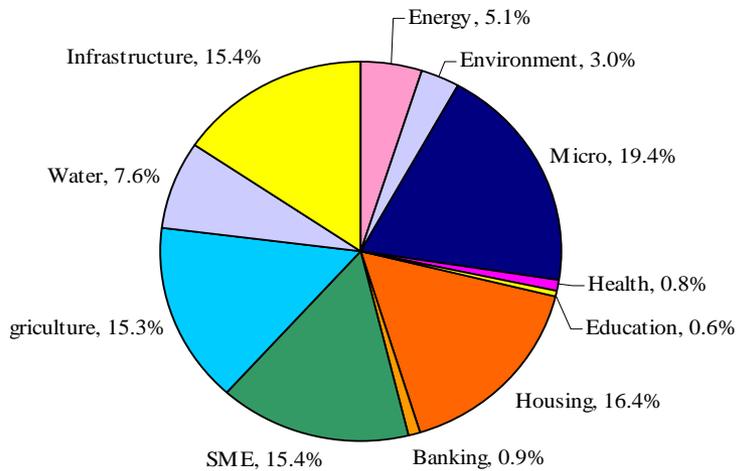
Asia & Near East

Bangladesh
Egypt
India
Indonesia
Morocco
Philippines
Vietnam





Guarantee Portfolio – Sectoral Distribution



Agriculture: Promotes lending for agribusiness and trade

Education: Develops private sector credit mechanisms to support education projects

Environment: Credit for environmental conservation and protection initiatives

Health: Investments in health and medicine

Housing: Develops mortgage lending and secondary mortgage markets

Infrastructure: Supports infrastructure investments for municipal service delivery

Micro: Private lending to micro-enterprises and micro-finance institutions

SME: Promotes productive investment in small and medium-sized enterprises

Water: Supports investment in clean water and sanitation projects





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USAID Contact Information

USAID Guarantee Office Director - John Wasielewski 202-712-5058

- AFR – Karen Doswell 202-712-4431
- ANE – David Grossman 202-712-0145
- E&E – Sandy Goshgarian 202-712-0382
- LAC – Alison Eskesen 202-712-5323

Communications - Stavelly Lord 202-712-1157

USAID Credit Guarantee website: www.USAID.gov

keyword: Development Credit

