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## The Banking on Health Project and the Development Credit Authority Guarantee

The Banking on Health project expands access to financing for private health providers, improving their capacity to deliver high-quality reproductive health and family planning services. Banking on Health works with financial institutions to increase lending to the health sector. In many countries, financial institutions are reluctant to lend to private health care businesses due to a number of factors, including concerns about risk and collateral. The Banking on Health project has found that the United States Agency for International Development's (USAID) Development Credit Authority (DCA) guarantee can mitigate these concerns and encourage banks to enter the health sector.

### What is the DCA Guarantee?

USAID designed the DCA to encourage financial institutions to lend to creditworthy but underserved borrowers, such as private health providers. The DCA is a partial credit guarantee that covers up to 50 percent of defaults on loans private financial institutions make. The DCA carries the full backing of the U.S. Treasury and can be an important tool for USAID missions to stimulate lending through local financial institutions. The DCA guarantee leverages local resources (money held in local banks) to support sustainable development.

### Working with the DCA to Expand Health Sector Lending

Over the past five years, the Banking on Health project has monitored and supported the utilization of health sector DCAs and assisted in structuring new ones. Banking on Health has found that supporting the DCA with technical assistance to financial institutions and health sector borrowers is an important way to address other constraints that limit financing to the health sector, such as banks' lack of market information and providers' limited financial and management capacity. In the Philippines and

Nicaragua, Banking on Health has worked with banks and health providers to expand lending under existing health sector DCAs. The project also has helped in structuring new health sector DCAs in a number of countries, including Zambia, Nigeria, and Ethiopia. If approved, the Ethiopia DCA, currently under review, will be the first U.S. President's Emergency Plan for AIDS Relief (PEPFAR)-funded DCA.

### Supporting the Health Sector DCA in Nicaragua

Two banks in Nicaragua began lending to the health sector and more than \$4 million, 81 percent, of the DCA guarantee has been utilized so far as a result of Banking on Health's technical assistance. The project is working with the Office of Development Credit and USAID/Nicaragua to support the utilization of one of the first health sector DCA guarantees. In September 2004 a \$5 million guarantee was structured with two banks in Nicaragua to promote lending to the health sector, focusing on providers that contract with the Social Security Institute. Banking on Health designed its technical assistance to promote health sector lending and utilization of the DCA. Banking on Health



then trained the two banks about lending to the sector, including understanding the risks and opportunities in the private health sector, credit analysis of providers contracting with the Social Security Institute, benchmarking, making a site visit, and structuring a health sector loan. Twenty-five loan officers and bank managers from the two financial institutions attended the course. Banking on Health also trained health providers in business planning and accessing financing, and it facilitated linkages between the banks and a providers association.

### Types of DCA Guarantees

**Loan portfolio guarantees (LPG)** provide financial institutions with partial coverage on a portfolio of loans that they provide to their customers. In the case of an LPG, USAID agrees to share in the risk of a broadly defined category of bank loans to induce local banks to extend credit toward an underserved sector, such as health. The individual borrowers an LPG covers are not determined at the time the guarantee agreement is signed, but must fall within an agreed-upon definition of eligible borrowers, such as ones that are private health sector businesses.

**Loan guarantees (LG)** are typically for one specific credit-enhancement purpose in cases where the borrower, lender, and uses of loan proceeds are known.

**Portable guarantees (PG)** provide an identified potential borrower, such as a health care business, with a letter of guarantee commitment through which the borrower may seek the most advantageous terms from the local financial market. Portable guarantees are appropriate for specific credit-enhancement purposes when the borrower is known but the lender is not.

**Bond guarantees (BG)** support the issuance of bonds by financial institutions, private sector corporations, or sub-national entities. Funds generated from a bond issuance, for example, can assist in raising local funds to initiate projects that require substantial up-front capital investment.

### Health Sector<sup>1</sup> DCA Guarantees

**Nicaragua:** *BanPro and FINARCA banks* • *Loan portfolio guarantees* • *\$5 million* • This loan portfolio



guarantee supports lending to private health care providers, including Empresas Médicas Previsionales that are medical service providers the Social Security Institute contracts to provide basic medical care to formal-sector workers.

**Kenya:** *Faulu Kenya Limited* • *Portable loan*

*guarantee* • *\$5 million* • This portable guarantee will enable Faulu Kenya Limited, a microfinance institution, to obtain \$5 million in guaranteed financing. Faulu will use the capital to expand its health insurance premium product to lower-income households currently unable to afford the lump sum required to purchase health insurance.

**Philippines:** *Opportunity Microfinance Bank* • *Loan portfolio guarantee* • *\$750,000* • USAID's loan portfolio guarantee supports loans to private midwife clinic members of a social franchise.

**Zambia:** *African Banking Corporation* • *Loan portfolio guarantee* • *\$5 million* • USAID's loan portfolio guarantee supports loans to private health providers and other businesses (with the exception of pharmaceutical manufacturers). Health sector lending can account for up to 10 percent of the portfolio guarantee.

<sup>1</sup> Health sector DCAs are being considered in Ethiopia, Georgia and Nigeria.