



USAID

CREDIT PROGRAMS

ANNUAL REPORT

AS OF SEPTEMBER 30, 2002

AGRI-BUSINESS

AFRICA

ENERGY

ASIA & NEAR EAST

MICRO, SMALL AND
MEDIUM ENTERPRISES

EUROPE & EURASIA

HOUSING &
MORTGAGE MARKET

LATIN AMERICA & CARIBBEAN

INFRASTRUCTURE

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

INTRODUCTION FROM THE USAID ADMINISTRATOR



I am pleased to present the first consolidated review of USAID credit programs. Until recently, USAID administered two credit programs, focused on only two development sectors — microenterprises and housing and urban infrastructure. Over the past few years, the experience gained through the administration of these programs has resulted in an improved and reformed approach to USAID credit financing. This approach, the Development Credit Authority, emphasizes the mobilization of local private capital through the establishment of risk-sharing relationships with private financial institutions in USAID-assisted countries. Now, with DCA, we have the ability to use these credit enhancements in all the development sectors.

DCA is a tool available to all USAID overseas missions. DCA provides our professionals in the field a vehicle for getting much needed credit to an array of enterprises and underserved sectors. Through risk sharing, we use DCA guarantees to enter into public-private partnerships that provide well run private financial institutions the flexibility to:

- Provide longer term lending;
- Reduce often onerous collateral requirements;
- Offer market-based interest rates to a wide variety of lenders; and most importantly,
- Invest in local development efforts.

In the brief time that we have been using this authority, applications of these guarantees cover a wide variety of USAID development activities:

- Agribusiness lending in Mali and Ukraine;
- Municipal infrastructure in South Africa, Bulgaria, Honduras, India, and the Philippines;
- Clean and efficient energy technology in Latin America and Eastern Europe; and
- Micro, small, and medium enterprise development in Mexico and Guatemala.

When I joined this agency, I believed that we simply had to find a way to harness the enormous energy and considerable resources of the private sector if we were going to make a lasting and significant difference in the economies of our partner countries and in the lives of their less fortunate citizens. Under my direction, we instituted the Global Development Alliance as a means for us to reach that goal. DCA is one way that we can use grant-funded technical assistance and training with credit financing to develop alliances with private sector entities and provide them the opportunity to invest in the development of their own economies.

Please join us as we move forward and help us to identify potential partnerships. The more opportunities that we identify for private investment for the public good, the sooner we will all be living in a better world.

Andrew S. Natsios
Andrew S. Natsios

DCA: MOBILIZING PRIVATE CAPITAL

AN INNOVATIVE APPROACH

The Development Credit Authority, or DCA, is a USAID financing tool that mobilizes local capital to fund sustainable development initiatives. Using a risk sharing approach with non-sovereign partners, DCA encourages financial institutions to lend to viable projects that otherwise may not be funded in underserved markets worldwide.

DCA FUNDAMENTALS

- Projects contribute to the achievement of USAID objectives
- Projects are financially sound and economically viable
- Financial risk is shared at a maximum of 50 percent with local partners
- Partners are non-sovereign entities, including the private sector and sub-national and local authorities
- USAID resources are maximized by leveraging local capital at up to 25 times the per-dollar impact

DCA CREDIT TOOLS

The credit mechanisms available through DCA include:

- **Loan Guarantees**
Maximum 50 percent coverage for a financial institution on the principal amount of a loan
- **Portfolio Guarantees**
Maximum 50 percent coverage for a financial institution on the principal amount of a portfolio of loans
- **Portable Guarantees**
Letter of guarantee commitment that enables a borrower to seek the best financing available
- **Bond Guarantees**
Protects investors on a portion of a bond issuance up to 50 percent

HOW DCA WORKS

After a Mission has identified a DCA project, a risk analysis is required. This analysis reveals the “subsidy cost” of the guarantee, similar to an insurance premium, paid by the Mission. The DCA guarantee insures part of the risk with a local partner, which provides financing for the project. In the event of default, the U.S. Government pays the local partner up to 50 percent of the outstanding borrowed amount.



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AFRICA

DCA

- Thirteen projects facilitate the provision of \$161 million in credit

MSED

(*Micro and Small Enterprise Development program*)

- Six partnerships with local institutions currently facilitate \$12.4 million in loan portfolio guarantees
- Fifteen partnerships facilitated \$26.8 million in credit

UE Credit

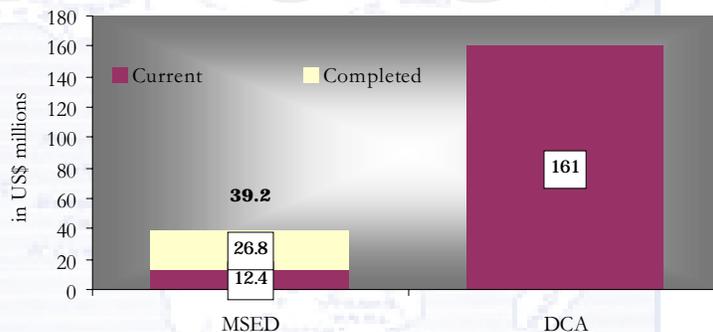
(*Urban Environmental credit program*)

- Thirty facilities, \$377 million in housing guarantee coverage



During Secretary of State Colin Powell (left foreground) and USAID Administrator Andrew Natsios' (right background) trip to South Africa, they visited a USAID-supported medium scale enterprise program to demonstrate the potential impact of DCA.

Credit Assistance



Approved DCA Projects:

- **Mali (2 agreements).** Supports BICIM/Bank of Africa to extend credit to small and medium sized agribusinesses.
- **South Africa.** Guarantees private sector investments in municipal urban infrastructure projects, (e.g. water, wastewater) through ABSA Bank.
- **South Africa.** Supports INCA/IBRC with a loan guarantee to finance the rehabilitation of distressed municipal bonds to restore them to investment grade for selling to the secondary market.
- **South Africa.** Partially guarantees the private financing of the largest residential development to be constructed in the inner city of Johannesburg.
- **South Africa.** Promotes on-lending to low-income individuals who are seeking home improvement or mortgage loans and may be affected by HIV/AIDS incapacitation.
- **Uganda (7 agreements).** Guarantees credit from multiple banks to enterprises and NGOs in multiple sectors.

Note:

DCA's predecessors, MSED and UE, are listed in this report to demonstrate the level of historical credit-related assistance provided to each region.

MUNICIPAL INFRASTRUCTURE

JOHANNESBURG, SOUTH AFRICA

In September 1999, USAID and the Greater Johannesburg Metropolitan Council (GJMC) signed a \$25 million guarantee agreement, which would assist the GJMC in obtaining private sector capital to help finance a range of infrastructure projects. Through the DCA 'portable guarantee', which provides 50 percent coverage of principal and interest, GJMC was able to successfully negotiate a ten-year 175 million South African Rands (US\$ 22.8 million) agreement with ABSA Bank, the largest bank in South Africa. This loan was disbursed November 2000.

In the two years since the facility was first negotiated, GJMC took a number of steps under its initial two year improvement plan, including the DCA guarantee, which encourage financing from the private sector, to greatly improve its financial position. GJMC, now known as the City of Johannesburg after recent government

legislation pertaining to municipalities, has undergone a major reorganization, including privatizing various activities, such as public transport, into separate, stand-alone entities responsible for their own budgets, financial condition, etc. Whereas three years ago, GJMC was unable to meet capital project improvement needs of Johannesburg, the self-imposed improvements following GJMC's two-year I-Goli Plan have produced dramatic results, which have greatly improved the living conditions and reduced crime in the City.

The USAID DCA guaranteed loan provided by ABSA Bank contributes to this process in a positive way by financing sorely needed infrastructure and capital improvements. The City of Johannesburg has recently revised and extended its ten-year program into a 30-year, long-range city improvement plan.

LOCAL GOVERNMENT BONDS

MANILA, PHILIPPINES

USAID/Philippines was one of the first offices to utilize the DCA credit guarantee. The Mission's partner organization is the Local Government Unit Guarantee Corporation (LGUGC), a domestic financial institution, whose overriding objective is to encourage the flow of private capital to creditworthy local infrastructure projects.

LGUGC is a private-public joint venture, owned 51% by the private Bankers Association of the Philippines, and 49% by the government's Development Bank of the Philippines. The purpose of the LGUGC is to offer guarantees to private investors and lenders on local government infrastructure projects that meet its underwriting criteria. Included in such underwriting criteria is a screening process that will result in a uniform system of local government credit rating

in the country. Over time, it is expected that the local governments will take necessary actions to receive a favorable credit rating and design self-sufficient infrastructure projects that repay debt in a timely manner.

The DCA guarantee assumes 30 percent of LGUGC's guarantees on local infrastructure project financing amounting to a limit of US\$28.5 million. The first USAID/LGUGC project co-guarantee is the local currency equivalent of a US\$8.0 million bond issue for Puerto Princesa City to finance low-income housing. LGUGC's pipeline of projects, which are likely candidates for the DCA co-guarantee, include: US\$10 million solid waste facility, \$4.5 million science facility, \$6 million mechanized post-harvest facility for corn, and other small individual projects for water systems, a slaughterhouse, and bus terminals.

ASIA & NEAR EAST

DCA

- Eight projects facilitate the provision of \$51.9 million in credit

MSED

- Five partnerships with local institutions currently facilitate \$7.2 million in loan portfolio guarantees
- Nineteen partnerships facilitated \$74.1 million in credit

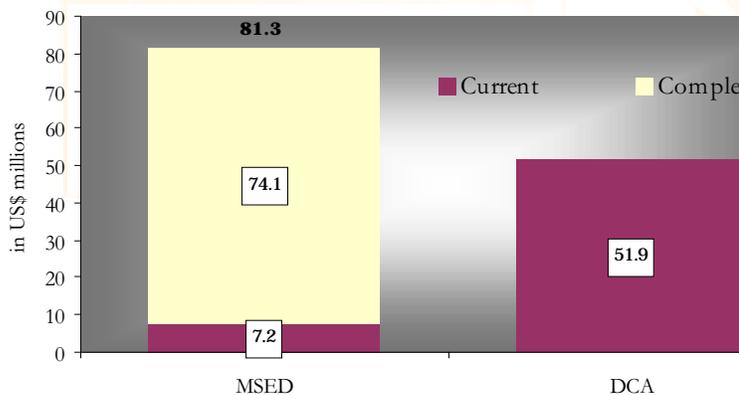
UE Credit

- Seventy six facilities -- \$1.5 billion in housing guarantee coverage

Approved DCA Projects:

- ◆ **Morocco (6 agreements).** Facilitates lending and re-guarantees for a range of activities including community based service delivery projects, housing and microfinance initiatives.
- ◆ **India.** In partnership with an urban development fund, insures a portion of a municipal bond issuance based on the pooling of water supply and sewage treatment capital projects near the metropolitan area of Chennai.
- ◆ **Philippines.** Supports municipal infrastructure projects through the LGUGC.

Credit Assistance





ENERGY EFFICIENCY

PERNIK, BULGARIA

A significant proportion of the high rate of energy consumption in Bulgaria is due to inefficient energy use particularly in municipal facilities. Most the equipment in these facilities is in the state of deterioration, further exacerbating inefficient energy use. To address these energy efficiency problems, it is critical that Bulgarian municipalities make substantial investments in modern equipment and infrastructure improvements.

Over the past several years, USAID has successfully funded two energy efficiency projects in Bulgaria, which have developed a groundswell of interest in energy efficiency among the country's municipalities. These municipalities have organized a collaborative association, the Municipal Energy Efficiency Network (MEEN) with USAID assistance. MEEN has linked itself with other similar international organizations throughout Central and Eastern Europe. However, despite the enthusiasm of the municipalities and the factual evidence of successfully implemented projects with positive financial returns, commercial banks in Bulgaria are still reluctant to provide longer-term financing to municipalities necessary to fund such projects. Perception of risk, inadequate collateral on the part of municipalities and poorly prepared projects are often cited

as the reasons for this phenomenon.

To correct this market imperfection, USAID/Bulgaria developed a DCA portfolio guarantee for the United Bulgarian Bank (UBB), a privately owned Bulgarian bank. Through this arrangement, USAID partially guarantees a series of loans made to various municipalities and some private sector enterprises to finance revenue-generating energy efficiency projects. Through this initiative, USAID will mobilize \$10 million in local financial resources at a cost of less than \$650,000 to the U.S. Government. This financing is complemented by project development technical assistance.

The successful implementation of this activity has demonstrated that longer-term project financing is an attractive investment option for commercial banks in Bulgaria. UBB has, in fact, indicated that positive experiences with certain first-time borrowers has prompted it to expand its credit exposure to these entities. This particular case is an excellent example of how DCA can be used to leverage private sector capital to support USAID development objectives, while generating environmental and social benefits. It also demonstrates that energy efficiency projects are financially viable and excellent investment opportunities.

EUROPE & EURASIA

DCA

- Five projects facilitate the provision of \$57 million in credit

MSED

- Ten partnerships with local institutions currently facilitate \$22.2 million in loan portfolio guarantees
- Ten partnerships facilitated \$6 million in credit

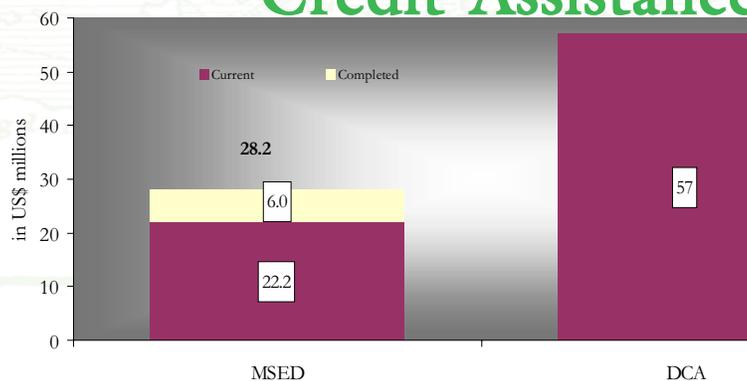
UE Credit

- Ten facilities -- \$154 million in housing guarantee coverage

Approved DCA Projects:

- ◆ **Bulgaria.** Partially guarantees loans made by the United Bulgarian Bank for energy efficiency improvement projects, e.g., efficient lighting, building improvements, waste heat recovery and co-generation.
- ◆ **Bulgaria.** Partially guarantees First Investment Bank loans to foster economic growth in competitive sectors, e.g., tourism, high technology, light manufacturing, commercial agriculture, and other export oriented industries.
- ◆ **Kazakhstan.** Supports Kazakhstan's first mortgage market through a partnership with Lariba Bank.
- ◆ **Ukraine.** Supports agricultural development in rural areas and improved economic infrastructure for market oriented growth.
- ◆ **Croatia.** Facilitates the extension of loans to new and current home owners in the war-affected areas of the country.

Credit Assistance



MICRO ENTERPRISE DEVELOPMENT

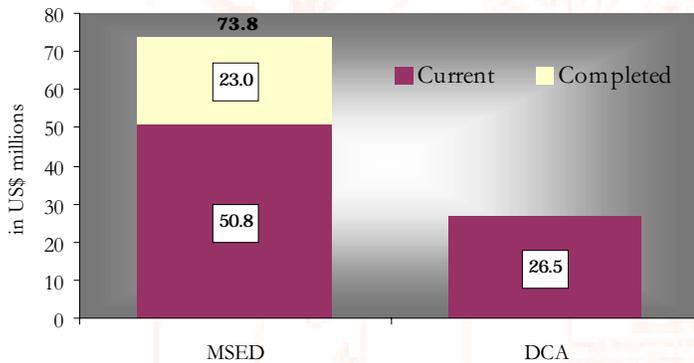
MEXICO CITY, MEXICO

In February 2001, the U.S. Ambassador to Mexico witnessed the signing of two new DCA agreements aimed at supporting microenterprises, the small businesses prevalent throughout the informal sector where most of the 50 percent of Mexicans below the poverty line live and work. It is an arena usually overlooked by the established private sector and always ignored by the banks controlling local capital.

The goal of these two agreements is to entice Mexican banks into microenterprise development. USAID Mexico is using DCA financing to help two credit unions expand their microenterprise activities. Union de Credito Progreso is a rural credit union focused on agriculture in the state of Chihuahua. USAID partially guarantees a \$1 million loan made to the Union by an American bank.

A second DCA guarantee of \$2.5 million supports Servicios Financieros Comunitarios, an urban credit union in Mexico City. This risk sharing will increase the capital available for lending to the poor by boosting lender and depositor confidence. These efforts have been described by USAID officials in Mexico as “baby steps” to encourage Mexican banks to lend to microenterprises.

Credit Assistance



AGRICULTURE CREDIT PEACE ZONE, GUATEMALA

The DCA guarantee in Guatemala covers a portfolio of loans made by BANCAFE to small businesses, small-scale producers, and cooperatives operating in the Peace Zone who normally do not have access to commercial credit. While not specifically designed to promote agricultural lending per se, the DCA portfolio guarantee will promote rural lending and assist farmers to gain access to financing.

Approved DCA Projects:

- ◆ **Ecuador.** Supports a partial guarantee for a Citibank loan to Banco Solidario to expand its microenterprise loan portfolio.
- ◆ **Guatemala.** With its local partner, Bancafe, jump-starts entrepreneurial and infrastructure development activities in regions affected by the thirty-year civil war.
- ◆ **Honduras.** Enables Banco de Occidente to provide a line of credit for targeted municipalities to assist with infrastructure needs, while demonstrating the creditworthiness of local governments.
- ◆ **Mexico (2 agreements).** Strengthens and expands micro-lending activities through FinComun and Union Progreso.
- ◆ **Peru.** Supports capital investments for small and medium enterprises willing to introduce, upgrade, or retrofit industrial processes that utilize cleaner technologies.
- ◆ **Peru.** Supports the extension of loan guarantees to microfinance institutions through FOGAPI, a local MFI guarantor.
- ◆ **Nicaragua.** Encourages commercial financing for economic growth initiatives such as value added products, export products, and aquaculture industries.

LATIN AMERICA AND CARIBBEAN DCA

- Eight projects facilitate the provision of \$26.5 million in credit

MSED

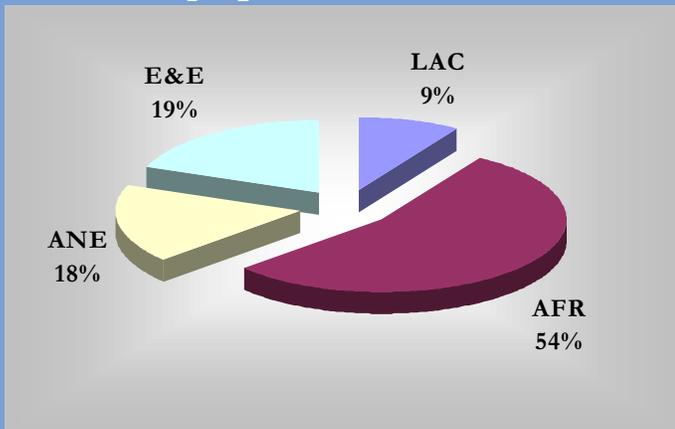
- Thirteen partnerships with local institutions currently facilitate \$50.8 million in guarantees
- Seventeen partnerships facilitated \$23 million in credit

UE Credit

- Seventy four facilities - \$743 million in housing guarantee coverage

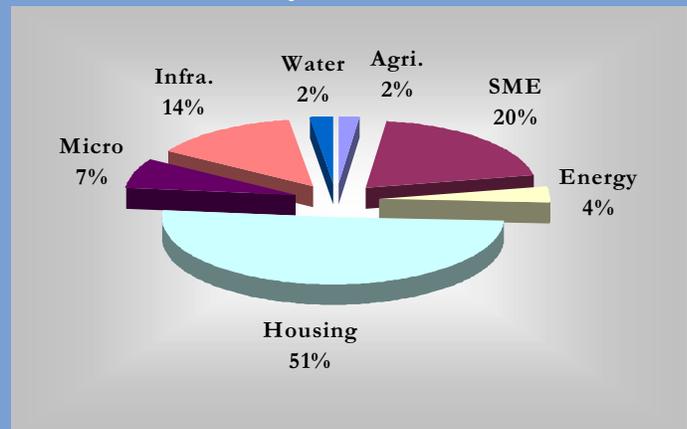
FINANCIAL OVERVIEW OF DCA

DCA Projects by Geographical Distribution

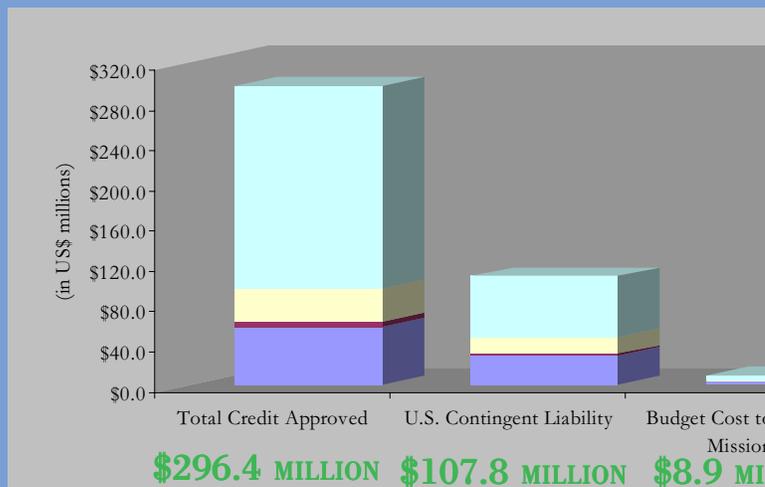


AFR = Africa
 ANE = Asia & Near East
 E&E = Europe & Eurasia
 LAC = Latin America & Caribbean

DCA Projects by Sector



Agri. = Agri-business
 Energy = Energy (clean and sustainable energy)
 SME= Small/ Medium Sized Enterprises
 Housing = Housing & Mortgage
 (housing mortgage lending and secondary mortgage markets)
 Infra. = Infrastructure
 (utilities and environmental service delivery)
 Micro= Micro Enterprises
 Water= Water (clean water production and wastewater processing)



NOTE: DATA REPRESENT APPROVED DCA PROJECTS AS OF SEPTEMBER 30, 2002. SECTOR AND REGION CHARTS ARE CATEGORIZED BY DOLLAR VALUES OF DCA PROJECTS.

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