



**USAID**  
FROM THE AMERICAN PEOPLE

# CREDIT GUARANTEES

Promoting Private Investment in Development



Year in Review | 2008

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## DCA CREDIT GUARANTEES

USAID uses the Development Credit Authority (DCA) around the world to encourage lending to creditworthy but underserved sectors. The year 2008 was a banner year for DCA, with 35 new guarantees signed and strategic partnerships launched with the African Development Bank and Standard Chartered Bank.

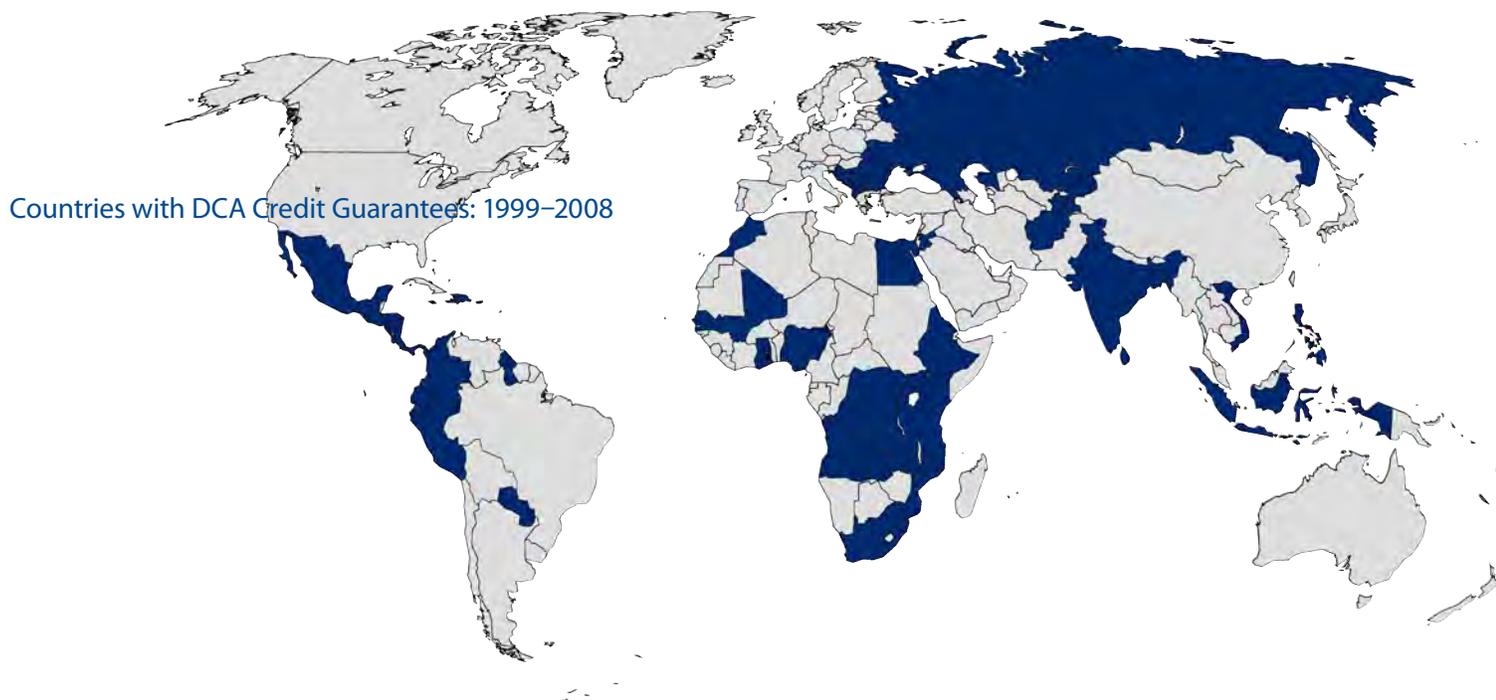
Credit guarantees are a powerful tool for achieving development objectives because they:

**Mobilize local wealth** — Credit guarantees open sustainable local sources of finance that are not reliant on donor funding.

**Induce competition** — Credit guarantees demonstrate to partner institutions that underserved borrowers are profitable, and other financial institutions often observe this and enter the market.

**Share risk** — USAID only guarantees up to fifty percent of a lender's risk so as not to create a moral hazard.

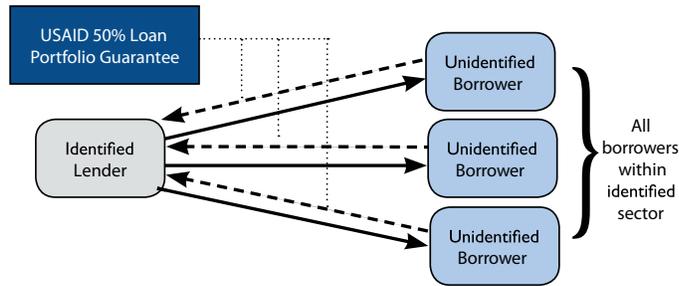
**Maximize USAID resources** — An average of 30 dollars of private financing is mobilized by each dollar spent by USAID.



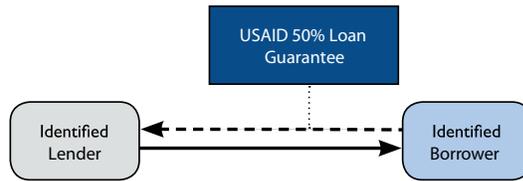
## TYPES OF CREDIT GUARANTEES

USAID partial credit guarantees are backed by the full faith of the U.S. Treasury. There are four standard guarantee products: a Loan Portfolio Guarantee (LPG), Loan Guarantee (LG), Bond Guarantee (BG), or Portable Guarantee (PG). While each of these mechanisms varies in structure, all share the same goal of encouraging local private investment. By mitigating the risk faced by issuing a loan, these guarantees encourage financial institutions to make financing available to underserved borrowers in a wide range of sectors including health, education, microfinance, and agriculture.

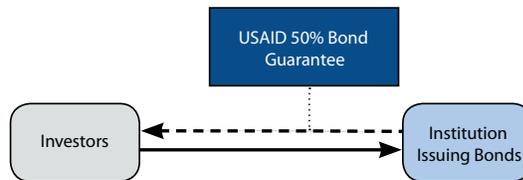
A Loan Portfolio Guarantee (LPG) involves one lending institution and multiple borrowers that are part of a borrower group specified by USAID. The purpose of an LPG is to encourage a lender to extend credit to areas that are underserved by financial institutions.



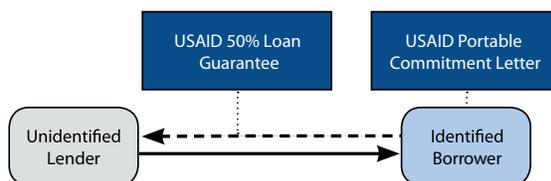
A Loan Guarantee (LG) involves one transaction between an identified lender and borrower. The lender is unwilling to extend the loan without the risk-sharing guarantee. USAID supports the borrower because the credit is for an activity that has a developmental impact.



A Bond Guarantee (BG) ensures investors in corporate and/or sub-sovereign bonds of both recovery and repayment. The guarantee often enables the issuer to obtain a higher credit rating, and thus, access less expensive and longer term financing.



A Portable Guarantee (PG) is similar to a loan guarantee except the lender is not identified. USAID provides a commitment letter to the borrower, which allows the borrower to shop around for the best loan terms. Once the lender is identified and agrees to the terms of the guarantee, the letter becomes a loan guarantee.



## SMALL AND MEDIUM ENTERPRISE

Small and medium sized enterprises (SMEs) are key drivers of innovation and job creation. SMEs operate in industries as diverse as agriculture, infrastructure, and education. Encouraging SMEs is an important part of supporting a burgeoning private sector, especially in Africa. To this end, in November of 2007 USAID Administrator Henrietta Fore announced the African Entrepreneurs Facility (AEF), an initiative to support the growing private sector in Africa. This initiative will assist African entrepreneurs in accessing the capital necessary to grow their businesses and create jobs. The AEF will provide technical assistance, equity investment, and debt financing to African enterprises. As part of this initiative, USAID entered into a formal agreement with the African Development Bank

(AfDB) to issue joint credit guarantees, increasing the amount of credit available to SMEs in Africa in a variety of sectors.

### Tanzania

USAID and the African Development Bank this year extended its first joint guarantee in Tanzania to support agricultural sector, which accounts for two-thirds of total employment in the country. This partnership will encourage CRDB Bank to increase medium and long term financing to agricultural enterprises that face difficulty accessing credit. These borrowers include actors in the agriculture value chains such as small-holder farmers and medium sized enterprises. Banks view extending finance in the long term as risky, since the opportunity for default increases



over time. CRDB Bank agreed to use the \$20 million credit guarantee to mitigate the risk of lengthy loan tenors.

The Tanzanian government's commitment to the sector was highlighted when President Kikwete visited USAID headquarters in August of 2008 to underscore the importance of this joint credit guarantee. By working with the government of Tanzania and the African Development Bank, USAID is using the Development Credit Authority to increase local investment in small and medium enterprises, signaling to other actors in the market that this is a profitable and viable sector in which to operate.



## AGRICULTURE



In many developing countries, the agricultural sector is the biggest employer, yet the least productive sector. To reinvigorate the sector's productivity, modernization is

badly needed, and a major obstacle to that goal is lack of access to financing. USAID is working with lending institutions to unlock credit so that farmers, and those in supporting industries, can buy the equipment and supplies they need to improve productivity, efficiency and competitiveness.

### Kosovo

USAID/Kosovo has been working to support private sector involvement in agricultural value chains to ensure sus-

tainability, reduce the country's dependence on imported food, and increase employment opportunities. Specifically, a 2006 loan portfolio guarantee with Raiffeisen Bank, Kosovo's second largest bank, has generated loans to support growth in the agricultural sector. For example, the bank extended a 100,000 Euro loan to Bylmeti, a dairy processor that produces 18 types of dairy products such as milk, yogurt, cream, and cheese. Bylmeti has obtained a total of three loans from Raiffeisen Bank, but the 100,000 Euro loan was put under guarantee because of the extended tenor of five years. The guarantee also enabled the bank to reduce the interest rate charged to Bylmeti by one percentage point. The loan was used to purchase state-of-the-art equipment from Germany, allowing the company to improve product quality and expand production.

### Afghanistan

Afghanistan has a rich agricultural tradition. Seedless grapes and pistachios were first cultivated there and the country was one of the leading producers of pomegranates. However, decades of war, and an increased reliance on illicit poppy production, have undermined these strengths. If Afghanistan is to reestablish this important sector, work must be done at multiple levels of the value chain. At all levels, credit is a necessity. Farmers need to purchase fertilizer and seeds; processors need to purchase equipment; and wholesalers need to purchase or construct warehouses. Currently, access to finance is virtually non-existent. Through a loan portfolio guarantee of \$20 million to Bank Alfalah developed this year, SMEs engaged in the agricultural value chain will be able to

obtain loans ranging from \$50,000 to \$500,000 for periods of up to 36 months. It will also provide a viable alternative to poppy cultivation, which is a threat to Afghanistan's stabilization. By demonstrating that lending to SMEs engaged in this sector is viable, this credit guarantee will support alternative agricultural development, and will prompt other financial institutions to follow suit.



## MICROFINANCE

Microfinance institutions lend money to the poorest of the poor, to help entrepreneurs without collateral obtain credit that can then be repaid in the near term. These borrowers use their microloans to purchase goods that they resell for a profit, or to tide them over until the next paycheck. The importance of microfinance in low-income countries cannot be understated, as these loans allow people to pull themselves out of poverty and create opportunities for themselves.

### Morocco

In Morocco, a microfinance institution called Al Amana wanted to obtain commercial financing to expand operations but could not find a bank willing to make the loan. Al Amana was created in 1997 and had mostly relied on USAID and other donors for funding. In order to expand to new borrowers and products, the organization needed commercial financing. It was unable to obtain competitive rates since it had not yet proven to commercial banks that it was a credit-worthy borrower. In 2000, USAID gave a portable loan guarantee to Al Amana. Al Amana ultimately was able to secure a \$4 million loan from Banque Populaire.

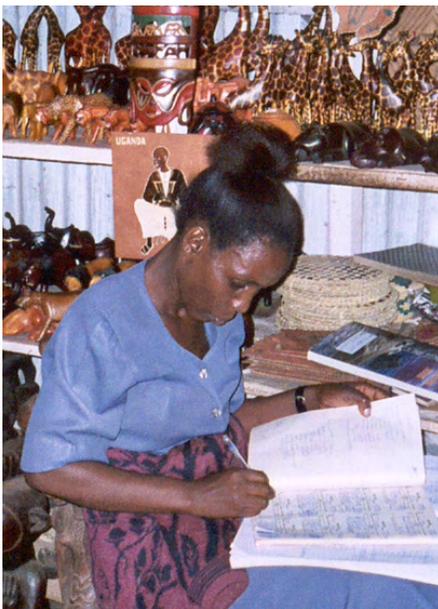


Since then, Al Amana has fully repaid the loan to Banque Populaire and has been able to secure subsequent commercial financing without an additional credit guarantee. In 2000, Al Amana had approximately 37,000 active loans. By 2006, that number had risen to over 400,000. In December 2007, Forbes Magazine named Al Amana number eight out of its first-ever list of the top microfinance institutions in the world, further proving its creditworthiness and prudent management.

### Democratic Republic of the Congo (DRC)

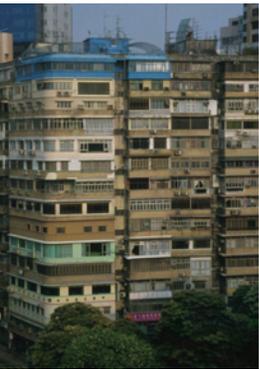
In Katanga Province, mining is the main economic activity. A lack of alternative sources of income in the province leads many young men and boys to extract these minerals on their own, endangering their safety through a process called artisanal mining.

To combat the negative effects of the artisanal mining activities in the DRC and to provide alternative livelihoods, USAID/DRC developed a Global Development Alliance in late 2006 comprised of donors, mining companies, and NGOs to implement education, health, agriculture extension, and other projects, called the "Extractive Industries Network." To complement this alliance, USAID/DRC in 2008 structured a \$5 million loan portfolio guarantee with Trust Merchant Bank to extend loans to micro and small enterprises in the Katanga Province, so that underemployed populations in the region can invest in economic opportunities apart from artisanal mining. USAID provides technical assistance to help potential borrowers obtain these loans. Showing their commitment to this initiative, the mining companies that are members of the Extractive Industries Network have agreed to pay a portion of the costs for this guarantee.



# HOUSING

One of the most critical issues facing cities today is the lack of secure housing for the poor. By 2025, half the world's population will be living in cities, and one billion people will be living in slums.



Increasing access to private sources of financing enables local governments and households to invest in more secure housing.

## India

India's largely rural population is rapidly migrating to urban

centers. An already strained urban infrastructure is being overwhelmed by this influx of low-income men and women seeking better opportunities in the rapidly growing Indian economy. Owning a home or obtaining credit to buy property and purchase materials to construct a dwelling is extremely difficult for most Indians. Few options exist because of the inadequate housing supply in Indian cities, and many are relegated to living in slums.

In an effort to support the Government's development agenda and in recognition of the importance of this issue, USAID/India has actively sought opportunities to tackle the housing shortage. USAID/India developed a loan guarantee in 2006 to enable Society for the Promotion of Area Resource Centers (SPARC), one of the largest Indian NGOs working on housing and infrastructure development for the urban poor, to obtain a loan from India's second largest bank, ICICI (formerly Industrial Credit and Investment Corporation of India.) The loan was obtained to mitigate the impact

of a major infrastructure improvement project in Mumbai that threatened to displace thousands of slum dwellers. This guarantee mobilized \$1.5 million in financing to SPARC for the construction of 2,470 housing units for an estimated 12,500 slum dwellers. The business relationship between SPARC and ICICI was so successful that it has resulted in new lending. In 2008, SPARC applied for a second loan that would be guaranteed by USAID, but ICICI decided that SPARC was creditworthy enough to extend the loan without USAID's guarantee.

## Armenia

In Armenia, the government currently does not have any social programs to support low-income housing. This stands in stark contrast to when the country was a republic in the Soviet Union and such services were provided by the

central government. As the country has moved to a market economy, a nascent private sector is filling the role that the centralized government used to play. In 2008, USAID used the Development Credit Authority to encourage this growth by partnering with a progressive mortgage lender. First Mortgage Company is Armenia's first private residential mortgage finance company, and has operated in Armenia since 2004. USAID provided a portable loan guarantee commitment letter to First Mortgage so that it could obtain a loan to expand its home loan portfolio. This loan will be used to allow middle-income borrowers to invest in their homes for improvements such as heating installation, roof repairs, and plumbing. The \$5 million guarantee resulted in First Mortgage being able to extend financing over the next ten years, so that borrowers can borrow and repay over a longer term.



Masako Imaoka / OnAsia

## EDUCATION

Increasingly, the private sector is relied upon to meet the demands for social services such as education. Private schools that cannot access public funds look to commercial lenders for necessary financing. Students also rely on private financial institutions to obtain the credit needed to pay for school fees and supplies. Facilitating these investments allows greater access to education, especially for low-income populations.

### Ghana

Overcrowding, poor quality and limited access to government-run schools often make private school a necessity rather than a real choice. In 2008, USAID structured a \$5 million loan portfolio guarantee, implemented in partnership with Opportunity International Savings and Loans Limited (OISL), to support a pilot program which will extend short and medium term loans to private schools.

By making financing available to private schools, particularly those which cater to lower income families, USAID is ensuring that these institutions have the resources necessary to invest in their schools and to provide children with a good education.

### Kyrgyzstan

Increasing the availability of higher education is key to spurring innovation, job creation, and income generation. The government of Kyrgyzstan recognizes this and has committed to increase the availability of vocational and university education to Kyrgyz youth. However, opportunities for higher education are



limited due to the high cost, which on average is \$800 at a public university. This is more than half the country's annual per capita income of \$1,300. Private universities can cost up to \$2,000. Scholarship opportunities are scarce and families are often unable to help their children pay for higher education.

In order to make university and vocational education more affordable, USAID/Kyrgyzstan designed a \$1.5 million loan portfolio guarantee with two Kyrgyz banks, Kompanion and KICB, to cover 50 percent of losses on a portfolio of loans for vocational and university education.

## ENVIRONMENT AND ENERGY



USAID uses the Development Credit Authority to encourage private investment in clean energy production, environmental improvements, and energy efficiency upgrades. Because these investments often reduce operating costs, promoting environmentally sustainable operations is also good for development. It is also good for business.

### Guyana

Guyana is a country that is well-endowed with natural resources. Harnessing this bounty in an environmentally sustainable way is key to developing Guyana's export market and to increasing economic growth in this low-income

country. In 2008 USAID/Guyana developed its first \$5.8 million loan portfolio guarantee with the Institute for Private Enterprise Development (IPED). This guarantee will make loans available to micro, small, and medium sized enterprises (MSMEs) involved in aquaculture (fish farming), agriculture, ecotourism, wood products, and small scale manufacturing. MSMEs in these sectors will receive technical assistance from USAID to enable them to produce high-value exports and improve their business operations. This loan portfolio guarantee encourages economic growth in Guyana that will harness the natural resources of the country without putting those resources in danger.

### El Salvador

The passage of the Central America Dominican Republic United States Free Trade Agreement (CAFTA-DR) was ratified in El Salvador in March 2006. In addition to requiring important reforms in the legal and regulatory environments of partner countries, it also mandates that companies reform their operations to meet environmental compliance standards. To help businesses obtain financing to make these environmental investments, USAID designed a regional guarantee in Central America with Banco Cuscatlan in 2003 to guarantee \$2 million in loans. In El Salvador, Banco Cuscatlan (now Citibank de El Salvador) used this guarantee to lend \$300,000 to Agroindustrias San Julian, a family-owned milk processing company. Before the loan, the company used to collect milk from local farms in un-refrigerated trucks, resulting in poor quality, and high losses due to spoilage. Through technical assistance, USAID helped Agroindustrias analyze its operations to expand and modernize. The guaranteed loan was used to invest in clean production upgrades, including a new filtration system, refrigerated trucks, and a wastewater treatment facility. As a result of its investments, the company has saved approximately \$250,000 in energy and other costs, and is now certified by the US Food and Drug Administration.



## HEALTH

USAID is using its Development Credit Authority in new and innovative ways to increase private sector investment in sectors like healthcare. Around the world, governments in both high and low income countries struggle to provide basic levels of healthcare for their citizens. By involving the private sector, the costs of healthcare can become more affordable, standards of care can improve, and more people can access services that improve their lives.

### Kenya

A 2003 survey in Kenya found that only 10% of the population was covered by health insurance. Despite the government's best efforts to provide health insurance, a 2007 study found that the most critical barriers to this voluntary enrollment were a lack of knowledge, and a lack of the financial resources to pay for coverage.

When a low-income family without health insurance is suddenly faced with the costs of malaria or antiretroviral medications, the health-care costs can wipe out a lifetime of savings. Faulu, a Kenyan microfinance institution that works with low-income families, found that a major contributor to defaults on its microloans was when a family member became unexpectedly ill. To mitigate the risk of such defaults, Faulu created a new microloan product that would enable borrowers to buy health insurance. The cost is \$100 annually and will provide health care for a family of up to five. Since most of Faulu's clients cannot afford to make the one-time payment, the institution will amortize the cost so that borrowers can make smaller payments over the course of a year. USAID in 2008 provided a portable guarantee to Faulu so that it can obtain financing at the best possible terms to scale up this new health insurance product. The result



will be less loan defaults for Faulu, and more importantly, healthier borrowers.

### Nicaragua

To mitigate the expensive cost of healthcare, the Government of Nicaragua introduced improvements to the country's healthcare system. This initiative includes the creation of a private sector network of providers known as Empresas Medicas Previsionales (EMPs).

EMPs sign service contracts with the Nicaraguan Social Security Institute. Participating EMPs receive a monthly stipend to provide overall health services to those insured under the national healthcare system. However, the range of services that EMPs can provide is limited by their inability to obtain credit which they need to invest in equipment upgrades or infrastructure improvements. To address this need, USAID/Nicaragua used the Development Credit Authority to guarantee a \$5 million loan portfolio in 2006. Since then, loans totaling almost \$4 million dollars have already been disbursed under the guarantee to 28 EMPs. More significantly, the lender found these EMPs to be sufficiently reliable and creditworthy, so much so that it has loaned an additional \$3 million without a DCA guarantee.



## INFRASTRUCTURE AND WATER

Bridges, roads, tunnels, water pumping stations, and other types of infrastructure investments are integral to a country's development. Every day services such as drinking water, sewage collection and treatment, and transportation require sound infrastructure, but the large-scale financing needs of such projects results in underinvestment.

### Albania

In February 2008 local governments obtained the ability to borrow money for services such as trash collection, road repairs and street cleaning. However, obtaining loans was difficult for these municipalities. Despite the new law, a lack of credit history and expertise on the part of the municipalities meant that

Albanian banks were hesitant to make financing available. To address this concern, USAID/Albania launched a technical assistance program to improve local governance through effective public asset management, revenue collection, and service delivery. At the same time, the mission

designed a \$13.5 million loan portfolio guarantee with both Raiffeisen Bank and National Commercial Bank to catalyze



financing for Albanian municipalities to invest in infrastructure and operations, capitalizing on the municipalities' new statutory authority.

### Philippines

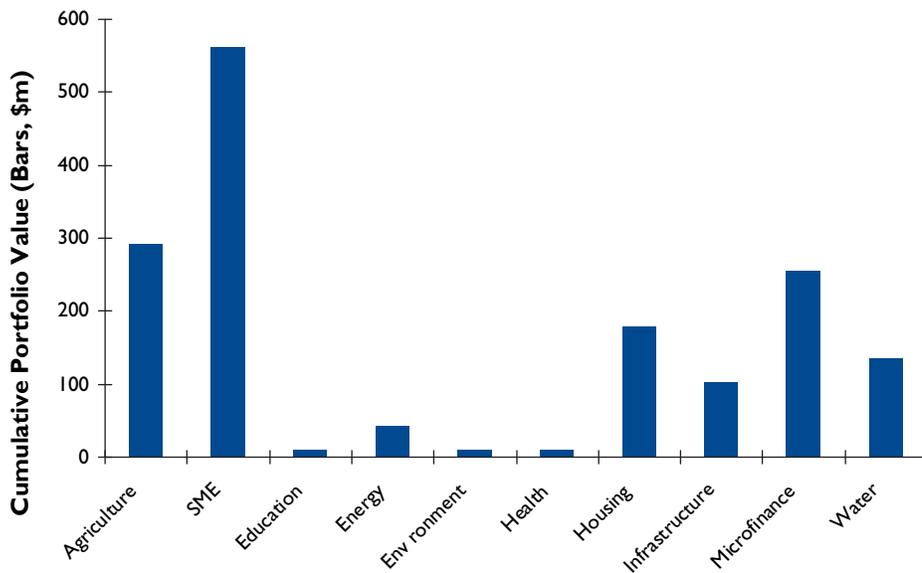
The Philippine Water Revolving Fund (PWRF) is a joint initiative under the Clean Water for People Initiative between the United States and Japan to attract private investment in water and sanitation infrastructure. This initiative was designed to ensure that the Philippines meets the Millennium Development Goal of reducing the number of people without access to safe water supply and sanitation, a goal that cannot be met without private investment. The first-ever Development Credit Authority guarantee was designed in late 1999 to

re-guarantee loans covered by a local guarantor, the Local Government Unit Guarantee Corporation (LGUGC). This guarantee helped establish LGUGC's credibility as a guarantee corporation. In 2008, USAID/Philippines used the Development Credit Authority to build on the success of LGUGC to make clean water available to even more Filipinos. A loan portfolio guarantee for \$37.5 million was designed in 2008 to re-guarantee loans covered by LGUGC, deepening private sector services through risk-sharing. The guaranteed loans are made by private lending institutions to local government units and water districts, and will be used for financing water supply projects.

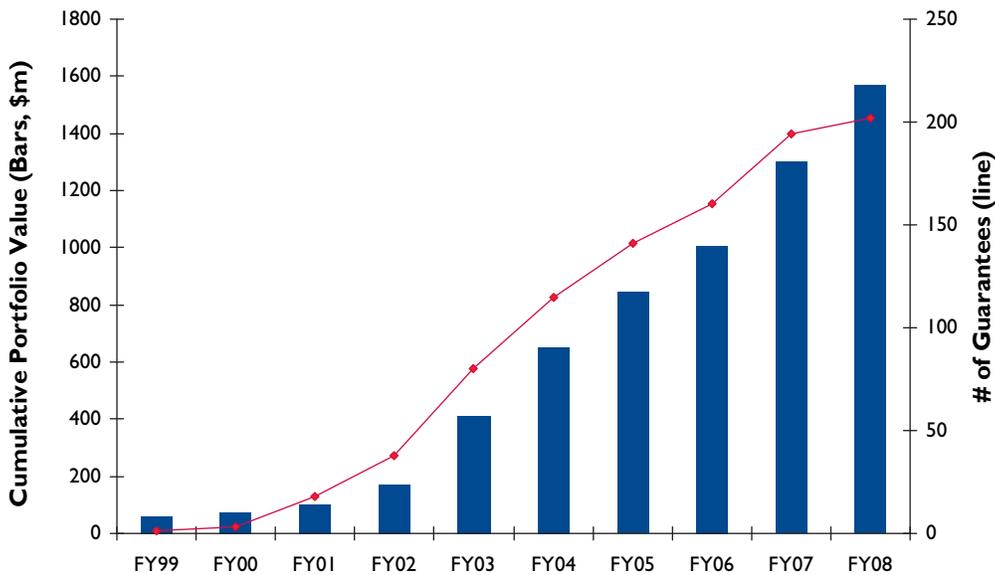
## DCA PORTFOLIO: 1999-2008

DCA has mobilized more than \$1.5 billion in credit through 204 guarantees in 60 countries.

Credit Made Available by Sector



DCA Guarantees Worldwide



## DCA ACTIVITY IN 2008

Country	Sector	Type	Guaranteed Amount	Credit Made Available
Afghanistan	Agriculture	LPG	\$5,000,000	\$20,000,000
Albania	Infrastructure	LPG	\$3,375,000	\$6,750,000
Albania	Infrastructure	LPG	\$3,375,000	\$6,750,000
Angola	SME	LPG	\$3,225,000	\$6,450,000
Armenia	Housing	PG	\$1,750,000	\$5,000,000
Burundi	Agriculture	LPG	\$1,500,000	\$3,000,000
Colombia	Microfinance	LPG	\$4,000,000	\$8,000,000
Democratic Republic of Congo	SME	LPG	\$2,500,000	\$5,000,000
Dominican Republic	SME	LPG	\$5,000,000	\$10,000,000
El Salvador	Housing	LPG	\$1,080,000	\$2,400,000
El Salvador	Housing	LPG	\$1,080,000	\$2,400,000
Ethiopia	SME	LPG	\$2,140,000	\$4,280,000
Ethiopia	SME	LPG	\$3,210,000	\$6,420,000
Ethiopia	SME	LPG	\$3,210,000	\$6,420,000
Ghana	Education	LPG	\$1,250,000	\$5,000,000
Ghana	SME	LPG	\$4,000,000	\$40,000,000
Global	Microfinance	LPG	\$18,130,000	\$36,260,000
Guyana	SME	LPG	\$2,900,000	\$5,800,000
Haiti	Microfinance	LPG	\$1,000,000	\$2,000,000
Haiti	SME	LPG	\$2,000,000	\$4,000,000
Jamaica	SME	LPG	\$2,530,000	\$5,060,000
Jamaica	SME	LPG	\$1,650,000	\$3,300,000
Kenya	Microfinance	LPG	\$2,500,000	\$5,000,000
Kenya	Microfinance	LPG	\$2,500,000	\$5,000,000
Kenya	Health	PG	\$2,500,000	\$5,000,000
Kenya	Water	LPG	\$2,500,000	\$5,000,000
Kyrgyzstan	Education	LPG	\$500,000	\$1,000,000
Kyrgyzstan	Education	LPG	\$250,000	\$500,000
Paraguay	SME	LPG	\$800,000	\$1,600,000
Paraguay	SME	LPG	\$1,750,000	\$3,500,000
Philippines	Water	LPG	\$12,750,000	\$37,500,000
South Africa	Agriculture	LPG	\$21,500,000	\$43,000,000
Sri Lanka	Agriculture	PG	\$2,500,000	\$5,000,000
Tanzania	Agriculture	LPG	\$2,000,000	\$20,000,000
Zambia	SME	LPG	\$2,500,000	\$5,000,000
<b>Total</b>			<b>\$128,455,000</b>	<b>\$331,390,000</b>



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