



**USAID**  
FROM THE AMERICAN PEOPLE

# CREDIT GUARANTEES

Promoting Private Investment in Development

2009



ROBERTO SCHMIDT / AFP



TEN YEAR

ANNIVERSARY

- 1 Letter from the USAID Administrator
- 2 Retrospective: Development Credit Authority, 1999-2009
- 4 What is the Development Credit Authority?

### **DCA Guarantees: A Snapshot**

- 6 Recovering from Conflict
  - 8 Improving Food Security
  - 10 Investing in Energy
  - 12 Supporting Microfinance
  - 13 Financing Water & Infrastructure
  - 14 Strengthening Agriculture
- 
- 16 DCA Portfolio: 1999-2009
  - 17 DCA Activity in 2009

**Cover: Subsistence farmers in the Artibonite valley in central Haiti gather rice.**



Rajiv Shah

**A decade ago,** USAID launched a credit guarantee program that expanded the horizon of possibilities for sustainable financing for a wide range of development activities. Under the Development Credit Authority (DCA), USAID missions have entered into partnerships

with private financial institutions around the world to facilitate access to capital. To date, over 200 guarantees have made \$1.8 billion of loans available to borrowers in 62 countries.

USAID's experience with credit guarantees has demonstrated that this flexible tool has a significant effect on deepening local financial markets and contributing to economic growth. A study found that 88 percent of borrowers realized substantial revenue growth during the term of their USAID-guaranteed loan.

DCA guarantees have enabled small businesses to invest in growth, schools to buy books, communities to rebuild after conflict and natural disasters, municipalities to offer clean water and other essential services, health clinics to access new technology, and farmers to improve their harvests. USAID staff continue to find increasingly effective and innovative ways to use credit guarantees to achieve foreign assistance and development objectives.

USAID also works with host governments and other donors to broaden and maximize the effects of our collective efforts. We partner with the Government of Japan on forward-thinking financing mechanisms for infrastructure. We are collaborating with the Gates and Rockefeller Foundations to encourage agricultural investments in Africa, and with Grameen Foundation to make more microfinance loans available to borrowers around the world. USAID has co-guarantee arrangements with other development institutions, such as the Swedish International Development Cooperation Agency and the

African Development Bank, to further leverage the impact of our investments.

By harnessing private resources, USAID utilizes U.S. Government resources more efficiently and ensures sustainable development. A credit guarantee fills a knowledge gap by introducing lenders to creditworthy and underserved borrowers. Once financial institutions become familiar with this new source of business, they continue to extend loans even after expiration of the USAID guarantee.

In Bulgaria for example, USAID provided a DCA guarantee to mobilize \$8.1 million in financing for private companies and municipalities to implement energy efficiency projects that contribute to reducing greenhouse gas emissions. Thirty projects were financed, resulting in the reduction of 530 thousand tons of carbon dioxide. By demonstrating the viability of lending for clean energy, USAID also helped to develop a new market. Today, the partner bank continues to lend to this sector without USAID support, and other banks have followed its lead and begun financing clean energy projects.

The next 10 years promise to be even more challenging, exciting, and productive than our first. We hope that by reading this report you will be inspired to join us in this exciting enterprise.

Rajiv Shah  
Administrator  
U.S. Agency for International Development

# Retrospective: Development Credit Authority, 1999–2009



## Evaluations

USAID undertook several evaluations to measure the results of its credit guarantees and is continually learning how to maximize impacts while ensuring the guarantees do not crowd out the private sector.

The complete evaluations can be found at: [http://www.usaid.gov/our\\_work/economic\\_growth\\_and\\_trade/development\\_credit/index.html](http://www.usaid.gov/our_work/economic_growth_and_trade/development_credit/index.html)

Some findings include:

- *USAID opens up financing where there previously was none.* In the Philippines, a re-guarantee of a local guarantee corporation created a sustainable source of financing for municipal and water infrastructure. Not only did the \$28.5 million in lending under the DCA guarantee

demonstrate the viability of municipal and water lending to private financial institutions, it also helped extend financing terms from approximately five to ten years. Moreover, the local guarantee corporation continues to invest in the sector with at least half of all issued guarantees currently not backed by USAID. This equates to another \$42 million invested in municipal and water infrastructure.

- *Guarantees help lenders test the viability of new markets.* With the DCA guarantee, a partner microfinance institution entered the agricultural sector, growing its loan portfolio from virtually zero to 8.5 percent in six years. This successful lending in the agricultural sector inspired a competitor's entrance into the sector. The competitor cited the experience



2005

▲  
USAID uses a DCA guarantee to support the first commercial paper issuance in Armenia.

2006

DCA guarantee portfolio reaches \$1 billion.



2007

▲  
First time that a third party, Chevron, contributes funding for a guarantee.

USAID enters into a strategic partnership with the African Development Bank to extend joint guarantees. To date, \$25 million has been made available in Tanzania and Zambia.



2008

▲  
USAID uses the DCA guarantee to unleash local capital in Afghanistan to support crop production and agribusinesses.

Philippine Water Revolving Fund launched. Joint effort between USAID and Japan Bank for International Cooperation (JBIC) blends funds for on-lending to local water utilities to improve water service delivery.

2009

Largest guarantee in DCA history—\$162.5 million—launched with Grameen Foundation to support microfinance institutions during the global financial crisis.

of USAID's partner as a key factor in its decision to begin agricultural lending.

- *DCA guarantees allow partners to experiment with new loan terms.* In Ghana, the partner bank provided significantly longer terms – 35 months on average compared with 12 months for non-guaranteed loans. Additionally the average size of a loan was

larger, enabling small and medium-sized enterprises to make essential capital investments. All of the guaranteed loans were in the top 8 percent by size of the bank's small and medium enterprise portfolio, and 37.5 percent of the guaranteed loans were in sectors new to the bank.

- *Credit guarantees help financial institutions grow while responding to natural disasters.* USAID designed a DCA guarantee to help Indonesia recover from the devastating tsunami of December 2004. With the guarantee, USAID's partner financial institution quickly built branches in tsunami-affected areas to help reinvigorate the economy while growing its

portfolio and client base. Immediately following the tsunami, seven new branches were established with the guarantee supporting micro credit to 2,500 entrepreneurs. This represents provincial growth of 356 percent.

- *Partner institutions use DCA guarantees to develop new clients.* In Russia, the partner lender reduced collateral requirements with the DCA guarantee

from 150 to 111 percent, thereby enabling new clients to access financing. Out of the 136 borrowers under the guarantee, all but four continued to obtain non-guaranteed loans from the partner bank. Since the clients had developed a credit history with the lender, the subsequent loans were frequently for longer duration and greater amounts.

# What is the Development Credit Authority?

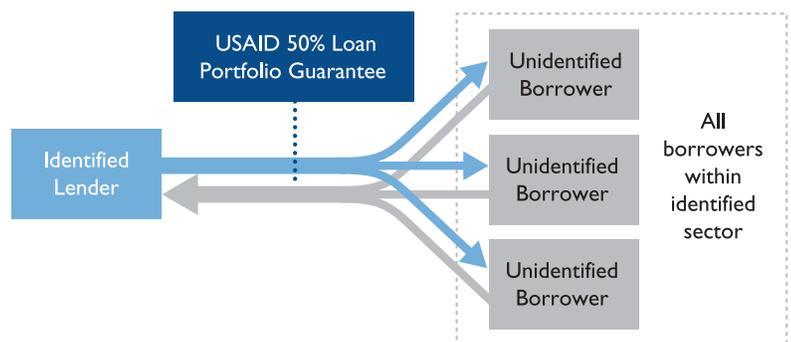
For ten years, USAID has used the Development Credit Authority to mobilize local financing. These guarantee agreements are designed to encourage lenders to expand their lending to new sectors and regions, or to improve loan terms. The authority provides a flexible tool for opening sustainable sources of financing that

support the development objectives of the U.S. government. Guarantees are used in any sector, including energy, education, democracy and governance, infrastructure, health, and micro, small and medium enterprise development.

## Types of Credit Guarantees

A **loan portfolio guarantee** is the most common type of DCA guarantee. It is a guarantee on a portfolio of loans that the partner financial institution makes within an identified sector.

The guarantee is designed to encourage a lender to extend credit to borrowers that are currently underserved by financial institutions.



A **loan guarantee** is a guarantee on one loan between an identified lender and an identified

borrower. This borrower would not be able to obtain the loan without the guarantee.



## Principles

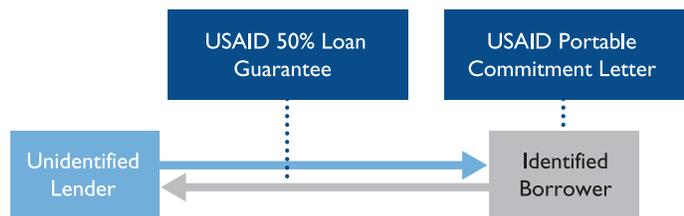
The Development Credit Authority is based upon the following principles:

- **Additionality:** Financial institutions use the Development Credit Authority to make loans that they would not otherwise extend on their own. That is to say, the guarantee allows lenders to take on additional risk, whether that is by creating a new loan product, offering different loan terms, or lending to a new sector.
- **Risk-Sharing Partnership:** USAID credit guarantees are backed by the full faith and credit of the U.S. Treasury. A financial institution that has a guarantee agreement with USAID makes

loans using their own capital. USAID will pay up to 50 percent of a claim in the event of a realized loss. Sharing risk with financial partners encourages them to perform due diligence before making a loan.

- **Sustainability:** Experience shows that when a USAID guarantee expires, banks often continue lending to the same borrowers that they had previously perceived as unqualified. Competitor banks frequently enter the same market after observing the success of a DCA partner bank, increasing competition and improving terms for borrowers.

A **portable guarantee** is similar to a loan guarantee, except that the lender is not identified. USAID provides a letter of commitment to the borrower, which the borrower uses to approach financial institutions to negotiate favorable loan terms. Once the lender is identified and agrees to the terms of the guarantee, the letter becomes a loan guarantee.



A **bond guarantee** is a guarantee on the issuance of a corporate or sub-sovereign bond. The guarantee frequently enables the bond issuer to obtain a higher credit rating, thereby accessing less expensive and longer term credit.



# DCA Guarantees: A Snapshot

## Recovering from Conflict

Businesses often shut down during conflict. Restarting a business requires credit to pay for lost inventory, damaged property, or a ruined harvest. DCA guarantees can be structured to encourage banks to restart their lending despite political volatility, which will help prevent a re-escalation of conflict through job creation and economic growth.



ROBERTO SCHMIDT / AP

## Kenya

In Kenya, a disputed election in December 2007 erupted in violent ethnic and political conflict. More than 1,300 people were killed, 300,000 people were rendered homeless, and the country's reputation as a haven of political and economic stability was damaged. To reinvigorate the country's economic sector, USAID/Kenya responded with a credit guarantee to help the poorest access financing to begin rebuilding.

Microfinance institutions are well-placed to contribute to economic recovery because millions of Kenyans earn their livelihoods as microentrepreneurs. Because of the conflict, many of these businesses required that their loans be restructured, resulting in reduced capital for microfinance institutions to continue lending. The loan portfolio guarantee developed by USAID/Kenya in 2008 with two banks, Oikocredit and Equity Bank, covers loans to microfinance institutions that will on-lend to Kenyan microentrepreneurs. To encourage quick action, USAID guarantees loans issued within six months at 50 percent and lowers the guarantee coverage thereafter.

A store owner in Kenya marks the outline of what was his store, destroyed by looting mobs.



**A Kenyan micro-entrepreneur sits in a market in Mombasa, Kenya, outside her stall**

## NEW GUARANTEE: Georgia

In August 2008 a simmering conflict between Russia and Georgia erupted into a military invasion in the Georgian provinces of Abkhazia and South Ossetia. The conflict destroyed local infrastructure, disrupted trade, displaced thousands, and ruined land used for agricultural production.

Several months after the conflict, USAID/Georgia provided a commitment letter to Crystal, a Georgian microfinance institution that wanted to obtain a commercial loan to use for on-lending to Georgian microbusinesses. With the Georgian economy hard hit by the conflict in Ossetia, Crystal was unable to negotiate affordable loan terms that older, more established organizations could obtain. To improve Crystal's bargaining position, USAID provided a portable guarantee that will cover 50 percent of a \$1 million loan from a commercial bank. Once Crystal identifies a willing lender offering acceptable terms, USAID's portable guarantee will convert to a loan guarantee, allowing more Georgian microenterprises to have access to financial services from Crystal.



**An elderly woman in Georgia gathers apples to sell outside her burnt-out house.**

## Improving Food Security

“We want to make sure that enough food is available, and that people have the resources to purchase it,” said Secretary of State Hillary Clinton in September 2009. Farmers and agricultural enterprises need credit for inputs and to create value chain linkages. The Development Credit Authority mobilizes investment in those opportunities.



NEW GUARANTEE:

## Haiti

Haiti, the poorest country in the Western Hemisphere, imports 60 percent of the food it consumes. Agricultural enterprises are small-scale and are subject to weak market linkages and adverse climatic conditions. Building on existing guarantees to encourage rural agriculture and improve market linkages, USAID/Haiti has prioritized a further expansion of financial services into rural areas and agricultural markets to support greater investment in value chains.

One result of this focus is a new federation of agricultural cooperatives. Le Levier, as the federation is called, was launched in June 2007 with help from USAID and comprises 19 rural cooperatives. USAID/Haiti designed a guarantee to support Le Levier in 2009, guaranteeing \$7.5 million in lending to rural borrowers who are members of Le Levier's cooperatives. The guaranteed loans will enable farmers to purchase the inputs necessary to increase agricultural production. The crops can then be used for both domestic consumption and international export.

**In Haiti, men push a cart loaded with fertilizer. A DCA guarantee there will enable farmers to purchase inputs to increase production.**

NEW GUARANTEE:

## Zimbabwe

Once known as the breadbasket of Africa, Zimbabwe's agricultural productivity has dwindled to a near standstill. The availability of food within the country is extremely limited. With a new unity government established in early 2009, there is much hope that the government will again undertake the policies necessary for food production to increase.

But even with government support, without private investment in the sector there is little room for growth. USAID/Zimbabwe therefore designed a DCA guarantee with Standard Chartered that will guarantee \$40 million of lending to enterprises that produce and distribute agricultural goods through contracts with smallholder producers. USAID/Zimbabwe is providing technical assistance to the smallholder farmers so that they can improve their linkages to larger enterprises. This guarantee, USAID's first in Zimbabwe, will help to revitalize the country's fledgling agricultural sector so that the country can begin to mitigate the effects of the ongoing food crisis.



**A Zimbabwean vendor sells sweet potatoes and cooking oil in Epworth, a slum dwelling in**

**Harare. A DCA guarantee will help address the effects of the country's food crisis.**

ROBERTO SCHMIDT / AFP

DESPOND KWANDE / AFP

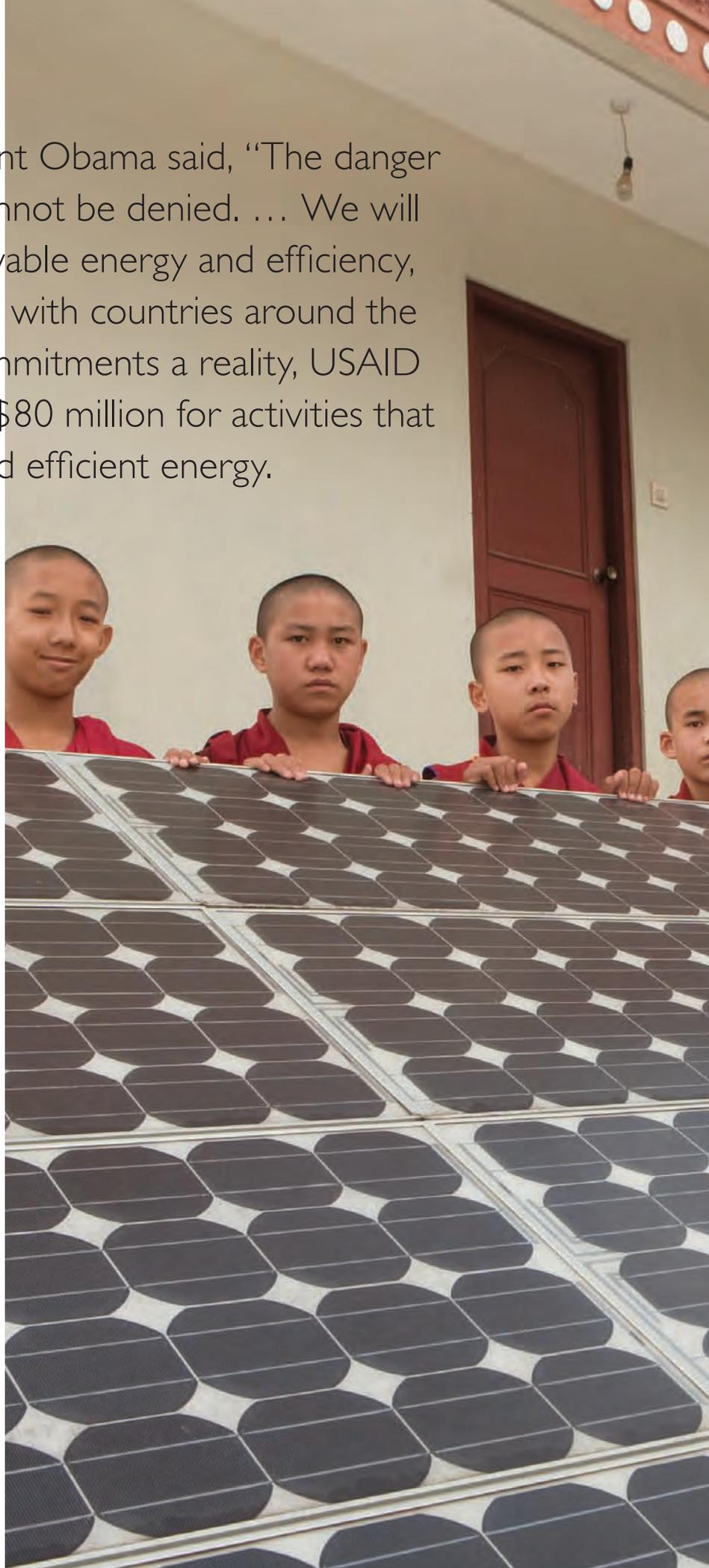
## Investing in Energy

In September 2009 President Obama said, “The danger posed by climate change cannot be denied. . . . We will continue to promote renewable energy and efficiency, and share new technologies with countries around the world.” In making these commitments a reality, USAID has guaranteed more than \$80 million for activities that support the use of clean and efficient energy.

### Global

In 2007 USAID guaranteed a \$1.5 million loan extended by ShoreBank to E+Co, an organization that supports small and growing energy businesses around the world through the provision of credit.

E+Co has invested in several energy businesses, such as a Brazilian company that converts sugarcane into ethanol that is then sold to local gas stations. Another investment is harnessing water power to make energy available to rural communities in Guatemala. E+Co lent to an energy developer in Cambodia to purchase and install biomass gasifiers, which turn biological material into fuel. In Nepal, Lotus Energy Pvt., a solar energy company using investment capital from E+Co, has sold and installed over 24,000 solar home systems despite the social unrest in the country, realizing a financial profit that also generates environmental benefits. E+Co continues to support these and future entrepreneurial businesses, creating a sustainable and profitable market for clean and efficient energy.





In a rural Nepalese village, people watch television

powered by solar energy supplied by Lotus Energy.



Monastery students stand around a solar panel provided by Lotus Energy.

## Supporting Microfinance

Microfinance institutions lend to entrepreneurs at the base of the pyramid, those who would be turned away for a loan at a bank. Entrepreneurs use short term microloans to make small investments in businesses like tailoring, light manufacturing, and food production. DCA guarantees can be used either to guarantee the issuance of these microloans themselves, or to guarantee financing that a microfinance institution obtains for the purpose of on-lending.

### NEW GUARANTEE:

#### Egypt

USAID/Egypt in 2009 designed two portable loan guarantees so that two microfinance institutions, Dakahlya Business Association for Community Development (DBACD) and Lead Foundation, can each obtain up to \$10 million in guaranteed financing. The microfinance institutions will use this financing to lend to microenterprises, which will expand the reach of the microfinance industry in Egypt. Additionally, the guarantee will provide evidence of the profitability of Egypt's nascent microfinance industry as DBACD and Lead successfully repay their loans.

**A vegetable vendor tidies her goods at a market in Cairo. A DCA guarantee in Egypt will support the burgeoning microfinance industry.**



### NEW GUARANTEE:

#### Global

Nobel Peace Prize winner Muhammad Yunus founded Grameen Bank in Bangladesh in 1976 based on the assumption that the poor were an untapped and reliable market for credit. Since then, microfinance institutions have proliferated around the globe, from Albania to Zambia. Grameen Foundation, founded in 1997, replicates the Grameen Bank model around the world through a global network of partner microfinance institutions.

In October 2009 USAID announced the largest joint credit guarantee in the ten-year history of DCA. The partnership launched by USAID and Grameen Foundation will mobilize \$162.5 million in guaranteed financing to qualifying microfinance institutions. The institutions will then use that money to continue lending to the poorest of the poor throughout the world.

## Financing Water & Infrastructure

Billions of people around the world lack access to safe water and basic sanitation.

The Millennium Development Goals include a target to halve the number of the world's population without access to water and sanitation. The consequences of inaction are severe: more than 1.5 million children die every year from diarrhea, mainly as a result of inadequate sanitation and water-borne diseases.

Up to \$30 billion annually is required to achieve these Millennium Development targets. Neither developing country governments nor donors have sufficient resources to close the financing gap. To meet this investment need, partners must explore public-private solutions that encourage blended financing. To this end, USAID launched a water finance toolkit ([waterfinancesite.org](http://waterfinancesite.org)) at World Water Week in August 2009 to help practitioners define appropriate financing interventions for water and sanitation services.

A girl pumps water from a well in Afghanistan.



### NEW GUARANTEE:

## Uganda

Kalangala District is comprised of 84 islands in Lake Victoria. Residents are connected to the mainland by limited ferry service. In 2009 USAID/Uganda signed a USAID guarantee to launch a multi-sector infrastructure project that was two years in the making. While the project had already obtained \$18.5 million in equity, the company needed \$20 million more in debt to make the project a reality. The portable credit guarantee allows the private company, Kalangala Infrastructure Services, to borrow up to \$20 million in commercial debt to complete the project, which entails upgrading the main road, repairing the ferry landings, purchasing a new ferry, developing an electricity generation and distribution system, and expanding the water supply system.

As a result of this project, 50,000 people will receive access to clean water, 7,000 households will have reliable energy, and 6,000 jobs will be created. Furthermore, the guarantee will have a demonstration effect, proving to the lender and the broader market that infrastructure projects like this one can be financially viable.



One of the several ferries that provide transportation between Kalangala, an island in Lake Victoria, and the mainland of Uganda.

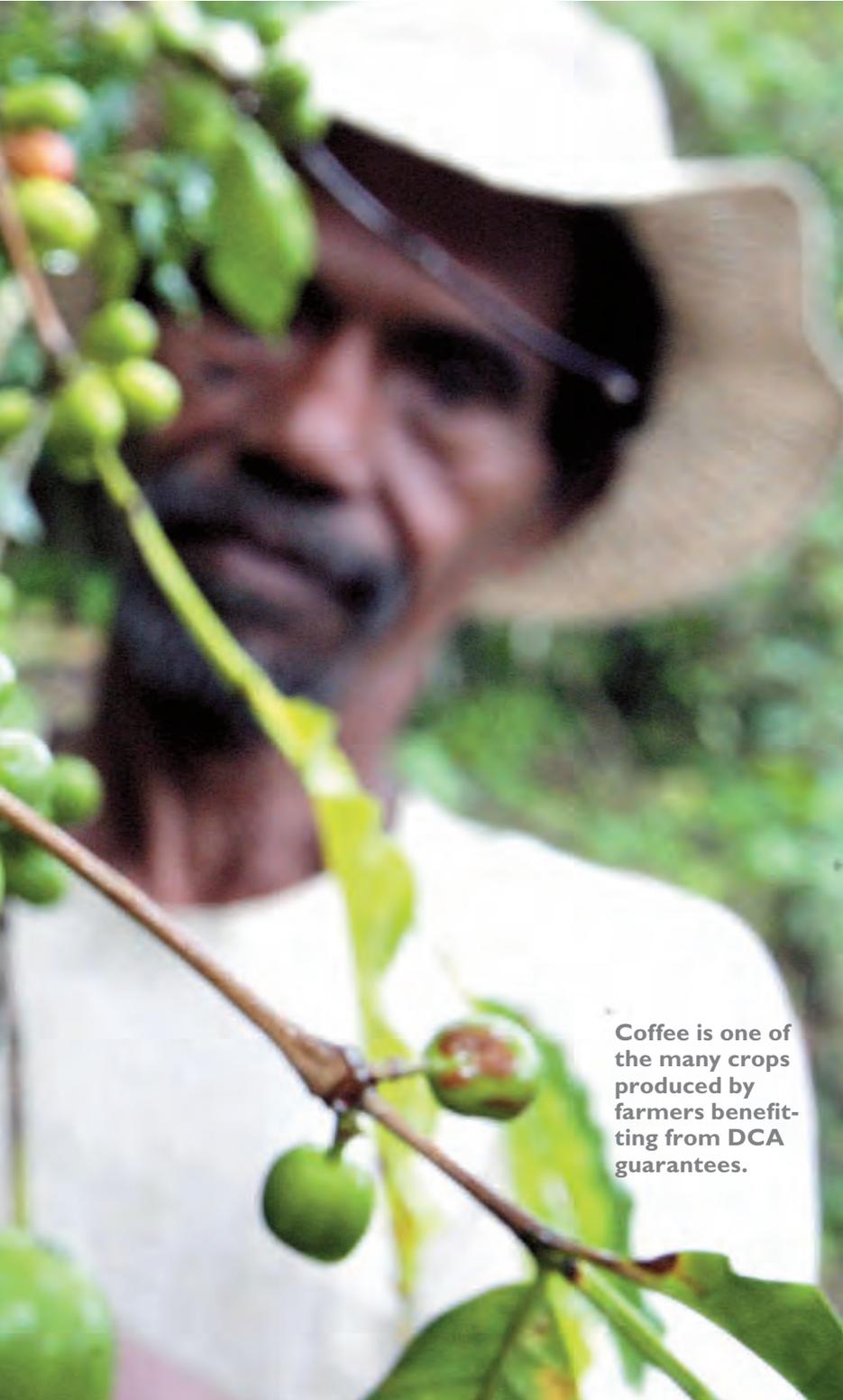
## Strengthening Agriculture

Agribusinesses mitigate the risk of drought and floods through crop selection and rotation, greenhouse farming, and other techniques. Credit guarantees enable financial institutions unfamiliar with agriculture to extend loans to the sector, allowing them to learn more about crop cycles and properly assess the risk of extending credit.



## Peru

While lucrative for farmers, illicit coca production in Peru is a threat to the nation's security. Supporting alternative agriculture, especially in zones where there is high coca production, is therefore a key objective for USAID/Peru. To make alternative agriculture a viable substitute, USAID needs to encourage the availability of credit in the remote areas where coca production is rampant and expand the delivery of financial services. USAID/Peru has created several credit guarantees that will mobilize \$18 million for investment in alternative agriculture. Already 3,423 rural entrepreneurs have accessed financing under the guarantees to invest in their agricultural enterprises. One partner, Caja Rural Señor de Luren, has found demand for agricultural finance to be so great that it has asked USAID for a larger guarantee to test a new product.



Coffee is one of the many crops produced by farmers benefiting from DCA guarantees.



Joel Herrera obtains guaranteed financing from Caja Rural Señor de Luren. He

has grown his farm from two hectares to 13 in five years.

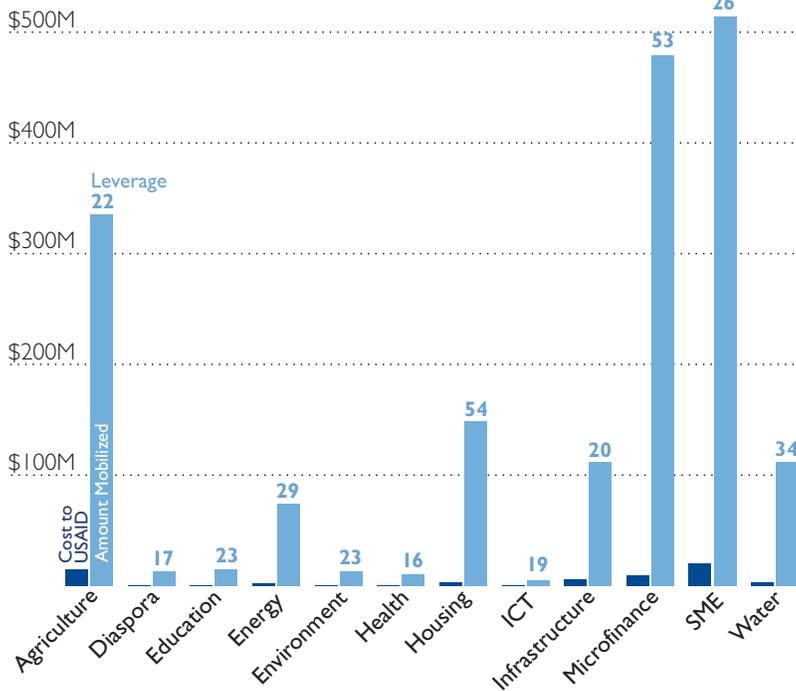
ANA LUISA PINTO / USAID

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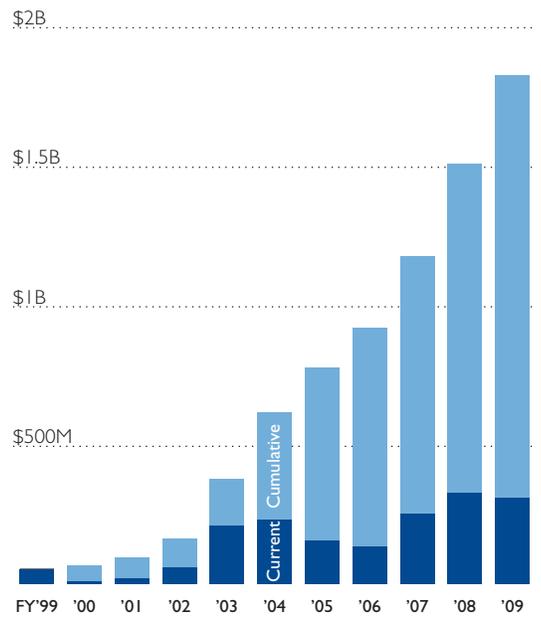
# DCA Portfolio: 1999-2009

DCA has mobilized more than \$1.8 billion in credit through 225 guarantees in 62 countries. New countries in 2009 include Zimbabwe and Liberia. Every dollar spent by USAID for a credit guarantee leverages an average of \$30 in private financing.

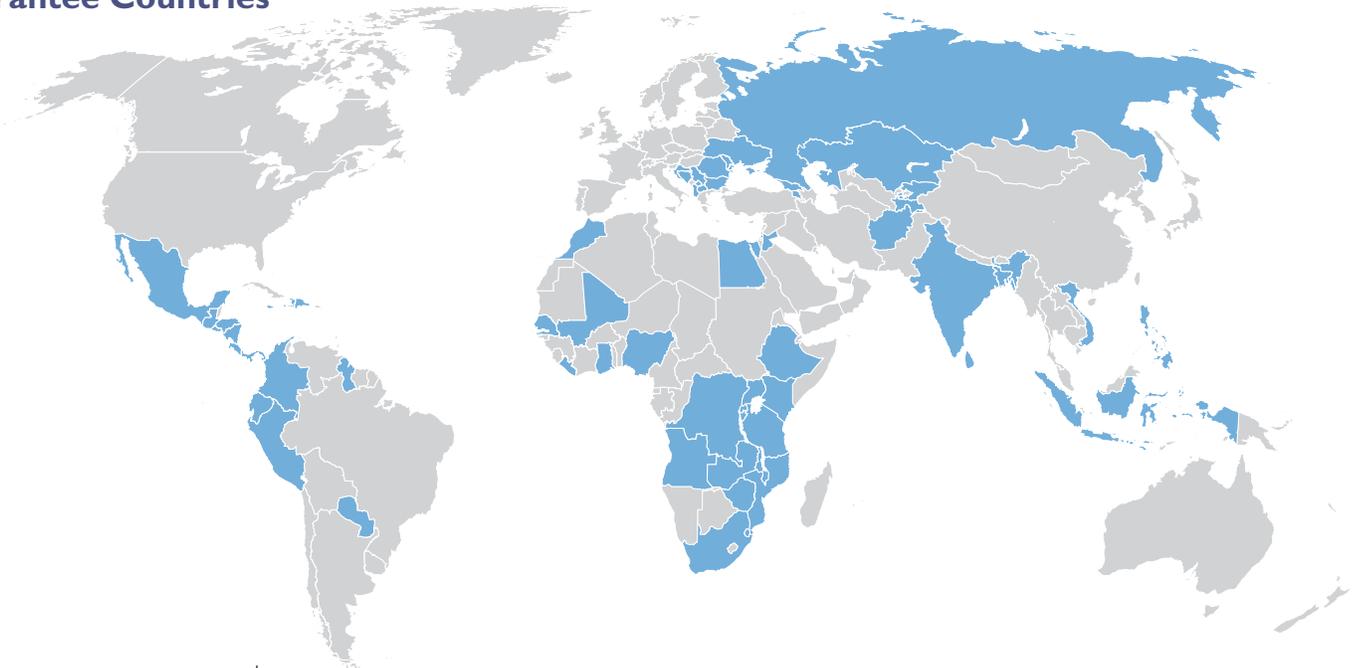
## Credit Mobilized by Sector



## Credit Mobilized by Year



## Guarantee Countries



# DCA Activity in 2009

Country	Type	Sector	Amount Mobilized	Cost to USAID	Leverage
Bosnia	LPG	Energy	\$7,940,000	\$592,324	13
Egypt	PG	Microfinance	\$10,000,000	\$137,000	73
Egypt	PG	Microfinance	\$10,000,000	\$151,000	66
Ethiopia	LPG	Microfinance	\$3,905,000	\$499,449	8
Ethiopia	LPG	Microfinance	\$3,905,000	\$499,449	8
Georgia	PG	Microfinance	\$1,000,000	\$32,200	31
Global	LPG	Microfinance	\$162,500,000	\$399,307	407
Haiti	LPG	Agriculture	\$7,500,000	\$1,119,750	7
Jordan	LPG	Education	\$3,000,000	\$33,600	89
Liberia	LPG	SME	\$4,240,000	\$499,896	8
Macedonia	LPG	Microfinance	\$3,000,000	\$83,500	36
Macedonia	LPG	Microfinance	\$2,000,000	\$83,500	24
Peru	LPG	Agriculture	\$4,000,000	\$106,800	37
Peru	LPG	Agriculture	\$4,000,000	\$92,000	43
Rwanda	LPG	ICT	\$4,730,000	\$249,744	19
South Africa	LPG	SME	\$20,000,000	\$60,000	333
Uganda	PG	Infrastructure	\$20,000,000	\$729,000	27
Zambia	LPG	SME	\$5,000,000	\$56,010	89
Zimbabwe	LPG	Agriculture	\$40,000,000	\$3,360,000	12
<b>Total</b>			<b>\$316,720,000</b>	<b>\$8,784,529</b>	<b>36</b>

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