

USAID

DEVELOPMENT

CREDIT AUTHORITY



WHAT IS DCA?

Development Credit Authority (DCA) provides USAID Missions with a tool by which they may encourage the use of credit and expand financial services in underserved markets. This Authority, supported by USAID's Office of Development Credit, allows USAID Missions overseas to partner with lending institutions in making resources available for investments that support development objectives. Missions underwrite part of the risk with the lending institutions. A small amount of USAID's development assistance funding enables the local banking sector and other sources of private capital to take on projects that otherwise would not be funded. The goals of DCA are:

- to mobilize private capital to finance development initiatives abroad
- to demonstrate the economic viability of such investments to the local banking sector and to other sources of private capital.

HOW DOES DCA OPERATE?

The use of credit provides USAID with a powerful tool for achieving its development goals. Private sector resources can be mobilized in many ways through DCA. A number of appropriate financial instruments are available under DCA. By selecting the most appropriate credit instrument for a specific project, USAID assures efficient and effective use of assistance resources while providing local participants a stake in their own success. It is the flexibility of credit, the partnerships, and the interaction with local market participants that allows the program to be so effective.

The tools available to Missions through DCA include:

LOAN GUARANTEE

Provides financial institutions with up to 50% coverage on the principal amount of a loan extended to a non-sovereign organization.

PORTABLE GUARANTEE

Provides the borrower with a letter of guarantee commitment through which the borrower may seek the most advantageous terms from the local financial market.

PORTFOLIO GUARANTEE

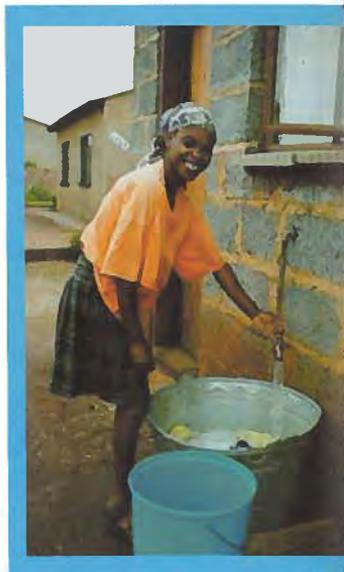
Provides financial institutions with up to 50% coverage on the principal amount of a portfolio of loans that they provide to their customers. If these customers are lending institutions, the DCA guarantee is referred to as "wholesale."

BOND GUARANTEE

A bond guarantee protects investors on a portion of a bond issuance. This mechanism is used for municipal or private sector financing.

DIRECT LOAN

Direct loans to creditworthy institutions will be used only in cases where private sector financing is not feasible.





WHAT PROJECTS ARE SUPPORTED BY DCA?

Even if there is the potential to generate income, development projects can often be perceived by local credit markets as risky endeavors. In economies where these types of projects do not occur, market distortions can remain, resulting in inefficient economies

and under-represented and disenfranchised segments of society. DCA provides USAID Missions with a tool by which they may encourage the use of credit and expanded financial services in underserved markets.

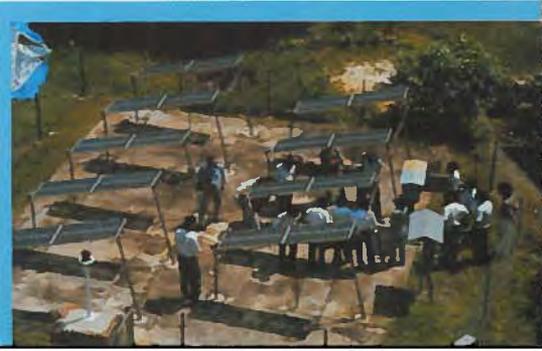
From microenterprise financing to renewable energy promotion to mortgage market creation, DCA projects help fill voids left by inefficient or underdeveloped markets. Once the sustainability and profitability of such projects is demonstrated, local institutions are more likely to expand financial services to traditionally under-represented economic sectors and social groups. Often, this sets in motion a long-term process for meeting the ongoing credit needs of municipalities and private and non-profit organizations in less developed countries.

WHAT ARE DCA REQUIREMENTS?

- Projects contribute to the achievement of USAID objectives;
- Risk is shared with private sector partners;
- Host country participants commit to financial discipline leading to a more appropriate and efficient use of U.S. assistance funds;
- Prudent risk management methods are used to assess project risk;
- Projects will address market failure; and
- DCA will support non-sovereign, private sector activities, including private loans to municipalities.

HOW ARE DCA PROJECTS STARTED?

Missions identify, design, and implement DCA projects based on their respective operation's development objectives. USAID Missions are supported by the Office of Development Credit (G/EGAD/DC) in Washington, D.C. The entire process – from application to coverage – can take less than 90 days to complete.



SAMPLE DCA PROJECTS

Brazil

DCA supports renewable energy investments that reduce greenhouse gas production. USAID/Brazil has worked with a local bank to partially guarantee a loan to a sustainable forestry company in the Amazon. The loan will finance a co-generation facility that uses waste from its mill to generate electricity.

Bulgaria

USAID/Bulgaria uses DCA both to reduce energy consumption and costs by encouraging municipalities to undertake needed infrastructure improvements and to promote private sector lending for energy efficiency projects. DCA partially guarantees private bank loans to municipalities for energy-efficiency projects.

Kazakhstan

The Mission in Kazakhstan uses DCA to spur the development of a housing mortgage market, a first step in building domestic credit financing and community responsibility. USAID/Kazakhstan guarantees a bank's portfolio of home mortgages for Kazaks.

Mexico

USAID/Mexico guarantees financial institutions to increase investment opportunities available to micro-, small-, and medium-sized enterprises throughout Mexico. DCA provides rural and urban banks and credit unions with 50% guarantees to expand lending activities to these targeted entrepreneurs.

South Africa

USAID views infrastructure projects as a key component of economic growth. The Mission uses DCA loan guarantees to support investment in water, utilities, and infrastructure projects by Johannesburg's municipal environment and infrastructure authority.

Organizations interested in utilizing DCA should contact the USAID Mission in their country or the Office of Development Credit in Washington, D.C. Visit our website at www.usaid.gov/economic_growth/egad/ci/dca2.htm or contact:

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