

U.S. Agency for International Development (USAID) Credit Guarantee Activities



Year in Review 2003



Table of Contents

Letter of Introduction from USAID's Administrator	1
The Development of USAID Credit Guarantees	2
DCA is	2
Benefits of DCA	2
USAID Credit Guarantees	3
Highlights of Innovative Guarantees	4
Summary of Guarantee Activities	5
2003 in Review	5
1999-2003 Summary	5
Regional Summary of DCA Activities	6
Africa	6
Asia and the Near East	8
Europe and Eurasia	10
Latin America and the Caribbean	12

Contact Information

Office Director

John Wasielewski

Regional Managers

Africa - Jeremy Hagger - 202-712-4923

Asia and Near East - Gabriel Grau - 202-712-0459

Europe and Eurasia - Sandra Goshgarian - 202-712-0382

Latin America and Caribbean - Alison Eskesen - 202-712-5323

Media and Communications

Stavely Lord - 202-712-1157

Mailing Address

U.S. Agency for International Development (USAID)

Office of Development Credit (EGAT/DC)

Ronald Reagan Building

1300 Pennsylvania Avenue, NW

Washington, DC 20523-2100

Tel: (202) 712-1380

Fax: (202) 216-3593

E-mail: odc@usaid.gov

Website: <http://www.usaid.gov> keyword: Development Credit



Letter of Introduction from USAID's Administrator

**DCA is "...a path to
the private sector."**

Since 1999, the use of DCA has grown exponentially. It is gaining popularity as a powerful tool to encourage local private-sector financing to bolster economic growth and our missions are making it an integral part of their activities. Over the first five years, missions have established 77 guarantees, supporting the availability of up to \$600 million in new loans to businesses across all of USAID's geographic regions. For every dollar of US Government funds, this innovative tool leverages up to \$50 in local currency loans.

In 2003 alone, missions have successfully developed and implemented 43 guarantees, providing for approximately \$290 million in loans from the private sector to a wide range of business activities including agriculture, infrastructure, housing, microfinance and health.

The number of examples is growing. In one recent project developed by our mission in the Philippines small midwife clinics can access loans for the expansion of healthcare services in poor and rural areas. Our mission in India structured another important project that guaranteed investments in a bond offering. The proceeds from the sale will finance construction of clean water and sanitation services for several municipalities in the south-eastern state of Karnataka.

Working with new partners in the private sector and marrying our talents with the energy, creativity and expertise of the private sector, is what animates our Development Credit Authority. To make a lasting and significant difference in the economies of our partner countries and in the lives of less fortunate citizens we must continue to harness the energy and considerable resources of the private sector. The Global Development Alliance, established under my direction, and DCA are two effective ways that USAID can work with the private sector to help us reach these goals. As the success of these alliances builds, we engage the private financial institutions of emerging nations in strengthening their local economies, and brighten the future for many people.

We continue to expand the innovative ways USAID guarantees can be applied to increase the availability of credit in developing countries. Meanwhile, I encourage you to learn more about DCA, its uses and its role in the future of development assistance. We welcome your comments, your questions and your interest.

**"The success
USAID's credit
guarantees have
demonstrated
offers
considerable
promise for the
future."**

Administrator
Natsios

Andrew S. Natsios
Administrator, USAID

The Development of USAID Credit Guarantees

The U.S. Agency for International Development (USAID) is working with the private sector in developing countries to expand investment in local development activities. Since 1999, USAID's field offices, or "missions" have used the Development Credit Authority (DCA) to facilitate these public-private partnerships. DCA is a tool within USAID that enables the missions to provide partial credit guarantees for private-sector investments to reduce the risk associated with lending to new sectors or new borrowers. These guarantees help stimulate development by increasing the flow of credit to areas and activities that need it most. The capital that is made available as the result of a USAID guarantee represents a tremendous resource for local businesses, public health and education, financial services, and infrastructure projects, just to name a few.

DCA is...

- The legal authority for USAID missions to issue credit guarantees;
- USAID's way to partially guarantee loans or debt instruments issued by private-sector lenders to creditworthy borrowers;
- A means to support new or increased financing in areas limited by conditions such as a lender's aversion to risk or overly-burdensome collateral requirements;
- A complement to USAID's traditional training and professional assistance, engaging the private sector in lending their own capital for bankable projects.

Benefits of DCA

Promotes private-sector investment – Large reserves of untapped private capital are available within the private sector of developing countries. To encourage financial institutions to lend that capital for developmentally beneficial projects, credit guarantees can be used to cover part of the risk on new loans where financing had been unavailable or inaccessible.

Encourages lending by reducing risk – USAID guarantees up to 50 percent of the net loss on principal for investments covered by a guarantee, sharing the risk with the private-sector partner.

Builds banks lending capacities – Guarantees provide local financial institutions with the security to extend credit and expand into new sectors. In this way, banks invest in their capacity to lend into new and potentially profitable markets while increasing the credit available to developing areas. These guarantees are often coupled with training and professional assistance from USAID designed to strengthen a financial institution's long-term involvement in local credit markets, beyond the coverage of a DCA guarantee.

U.S. Government funding maximized – By using credit from local sources to finance development activities, one dollar from the U.S. Government can leverage up to 50 dollars in loans.

USAID Credit Guarantees

USAID credit guarantees are intended to promote the use of local and international capital in market-based, public-private partnerships to finance development projects in underserved countries and sectors. The diagrams below show the most common structure for USAID guarantees. Additionally, these guarantees are flexible and can be tailored to meet the needs of a specific financial partner or project.

Originator - Guarantees are typically developed and issued by USAID's overseas missions;

Requirements – Project must contribute to the achievement of USAID development objectives; risk is shared with private-sector partners; financially viable; prudent risk management and mitigation;

Sectors – all sectors – from microfinance to the creation of mortgage markets, health infrastructure to large water projects;

Lenders – foreign or domestic; financial institutions or capital market participants/investors;

Borrowers – non-sovereign; private-sector financial institutions and enterprises; municipalities;

Terms – length of 2 to 20 years

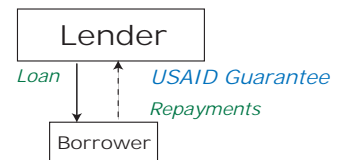
- commercial terms in local currency and/or U.S. Dollars
- risk sharing - covers up to 50 percent of a lender/investor's net loss on principal

Fees – risk-based with development needs taken into account

Below are the types of credit guarantees available from USAID

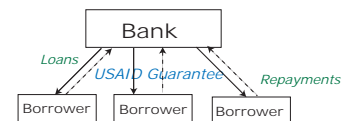
Loan Guarantee (LG)

The loan guarantee is the most basic of all guarantees. It covers a single loan from a financial institution to a borrower. It is an obligation by the U.S. Government to share in a lender's risk and encourage lending where access to funds is limited, for example, in markets not served by formal financial institutions or where the cost of credit is too high. The typical loan guarantee allows USAID's missions to use DCA for credit enhancement purposes where the borrower, lender, and use of the loan are known in advance. A lender can, for example, extend credit to a microfinance institution which then lends the funds as smaller loans to individual borrowers or small businesses. If a borrower defaults on repayment of the loan, the U.S. Government will reimburse the lender on the agreed-upon portion of the loss.



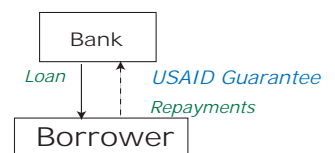
Loan Portfolio Guarantee (LPG)

A loan portfolio guarantee covers a pool of new loans from a financial institution to several borrowers. The essence of an LPG is the same as the loan guarantee described above, except that USAID agrees to share in the risk of loans to a group of borrowers, rather than just one borrower. The aim is to encourage local banks to extend credit to an underserved sector, rather than for an individual borrower.



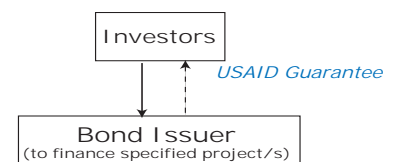
Portable Guarantee (PG)

A portable guarantee is another type of loan guarantee. Here the initial negotiations are between the borrower and USAID. Through the portable guarantee, USAID provides a letter of intent or "commitment agreement" so the borrower can shop around for the best terms on a new loan. The commitment agreement gives the borrower greater leverage in negotiating the terms of a loan and securing affordable financing. The portable guarantee leads to a separate loan guarantee between the chosen lender and USAID.



Bond Guarantee (BG)

A bond guarantee covers repayments to buyers of a bond (investors). USAID bond guarantees support the issuance of various types of bonds by financial institutions, private-sector corporations, or sub-national entities. The revenue generated from the sale of a bond can, for example, be used to fund local municipal infrastructure or utility projects, which require substantial up-front capital investment. Although USAID bond guarantees are typically used in countries with fairly advanced capital and financial markets, a guarantee can also be used to encourage the development of a bond issuance in less sophisticated financial markets. It can additionally be used as an alternative to a loan guarantee to assist a bank in raising capital for expanded lending activities.



Highlights of Innovative Guarantees

New Model for Water Financing in India

Until recently, small and medium-sized municipalities in India have had limited access to capital markets to finance the construction or improvement of clean water and wastewater systems. Availability of funds was restricted by high interest charges and a lack of investor interest in risky long-term debt. This resulted in unfavorable pricing for municipal borrowers.

In Tamil Nadu, a state in south-east India, an innovative form of financing is now in place to generate capital for water projects. At the end of 2003, Tamil Nadu issued its first municipal bond. The proceeds from this public sale capitalized a fund for loans to local municipalities for improvements to water supply and sewerage infrastructure. This pooled fund can generate up to \$6.4 million in credit for villages, towns and cities in Tamil Nadu to finance local infrastructure projects. A bond guarantee covers the repayments to the bond holders.

One example of how creative financing under the right circumstances can generate valuable development opportunities is in the township of Valasaravakkam (population of 26,260). Until recently, people living in Valasaravakkam relied on open wells and above-ground tanks to gain access to water. Like many small communities, the financing required to upgrade the township's water system was beyond their means.

With this new guarantee and bond issuance, Valasaravakkam can lay pipe from a safe source to two new underground large-capacity tanks. This construction, in conjunction with investments in new water pumps, will increase water supply from 2 liters to 35 liters per person per day. When complete, the access to clean water and resulting health benefits will have a very positive impact on the entire town.



An Indian couple, the ultimate beneficiaries of a USAID bond guarantee, proudly display a copy of their new water bill. It demonstrates their direct access to clean water from home.

Midwife Clinics in the Philippines Use Loans to Improve Healthcare

Across the Philippines, the lack of adequate healthcare services has been a challenge for women of low to moderate income in need of family planning, maternal and childcare services. To address this issue, USAID's mission in the Philippines has, since 1995, provided grant-funded assistance to establish a network of privately-owned midwife clinics.

In the fall of 2003, the mission set up a loan portfolio guarantee with a local Philippine bank, Opportunity Finance Bank. The guarantee is intended to encourage the bank to increase both the availability and sustainable access to financing for these and other midwife clinics. Before the guarantee was in place, the clinics were unable to access financing for the improvement and expansion of their facilities. This guarantee supports lending of up to \$750,000 to 250 clinics across the Philippines to develop present and future healthcare facilities.

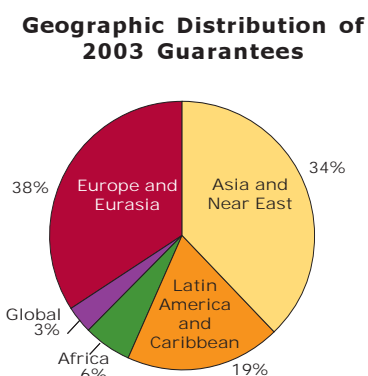
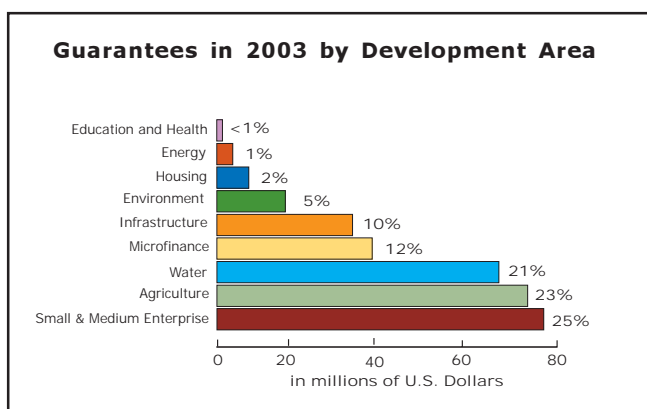


USAID's mission in the Philippines signs a guarantee agreement with Opportunity Microfinance Bank to expand the healthcare services of midwife clinics across the country.

Summary of Guarantee Activities

2003 Year in Review

Our missions have established 43 guarantees in 22 countries, creating partnerships between financial institutions and USAID that engage the use of local private capital for development. The guarantees have frequently been used in conjunction with training and professional assistance provided by USAID to build the capacity of financial institutions to operate on a sustainable basis in new markets or with new borrowers. As the use of DCA grows and more credit guarantees are established, USAID missions demonstrate the potential impact local financing can have on developing countries.



Number of guarantees
43

Total credit made available
\$291.6 million

Amount guaranteed
\$130.0 million

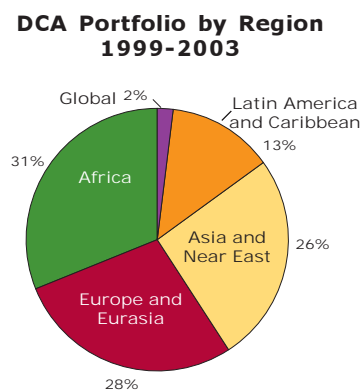
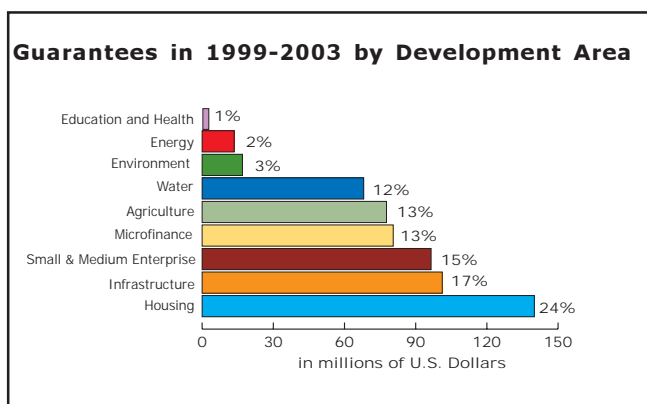
Cost to USAID
\$10.9 million

Number of countries
22

One-year increase in number of projects
126%

1999 - 2003 Summary

Over the first five years, USAID missions' use of DCA has grown substantially, starting with 11 guarantees established over the first three years, to another 23 in the fourth year, and, last year, to an additional 43 guarantees. This exponential growth demonstrates the need for and ability to use credit guarantees, as well as an increased understanding of how credit guarantees work and their relevance as part of USAID's development assistance efforts.



Number of guarantees
77

Total credit made available
\$595.7 million

Amount guaranteed
\$241.6 million

Cost to USAID
\$18.6 million

Number of countries
30

Africa

Quick Summary of Guarantees for 2003

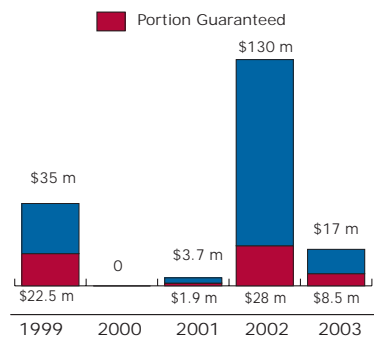
2003 at a Glance

Number of guarantees	5
Total credit made available	\$17.0 million
Amount guaranteed	\$8.5 million
Number of countries	2

Overview of 1999-2003

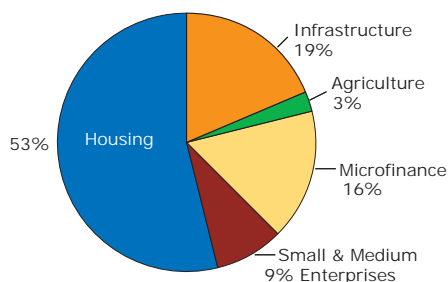
Number of guarantees	17
Total credit made available	\$185.7 million
Amount guaranteed	\$61.8 million
Number of countries	5

New Credit Available Using DCA



Guarantees in 1999-2003 by Development Area

(by amount of lending made available)



Ghana

Ecobank Ghana - Small and Medium Enterprises/Agriculture - LPG on credit of \$3 million
Standard Chartered Bank - LPG on credit of \$10 million

In Ghana, most formal banks do not meet the financial needs of micro, small and medium-scale enterprises. These businesses are seen as too risky. To balance this perception and improve access to commercial finance, two loan portfolio guarantees will cover up to 50 percent of the loss on loans of up to \$13 million that promote the development of competitive private enterprises. These guarantees are intended to increase the availability of credit to borrowers and viable businesses that are unable to satisfy the conservative banking industry's high collateral requirements. Over five years, these activities should demonstrate the profitability and sustainability of lending to "risky" segments and new borrowers.

Kenya

Cooperative Bank of Kenya - Agriculture/Trade/Tourism - LPG on credit of \$1 million

This guarantee is designed to partially cover a portfolio of loans to support commercial bank lending with particular attention to the agriculture sector, as well as tourism and trade. The sectors and/or borrowers include private sector enterprises involved in maize, dairy, horticulture, agribusiness processing, and storage capacity, microfinance institutions and non-governmental organizations.

Cooperative Bank of Kenya (SMEP) - see article below
Cooperative Bank of Kenya (Faula) - see article below

Promoting Access to Credit in Kenya

Lack of long-term commercial financing from the private sector remains a major obstacle to the development of competitive enterprises, and to the overall economic and social development of Kenya. Domestic lending is the most important source of investment and working capital, particularly where access to international funding is extremely limited, and where equity and debt markets are largely underdeveloped.

In Kenya, less than 20 percent of the population has access to financial services. Over 80 percent of Kenyans live in rural areas and a majority earn their living from small-scale agriculture or off-farm activities. In contrast, most financial services are located in major urban centers and provide services to larger enterprises and more affluent households.

To address these constraints, USAID's mission established two new loan guarantees with the Cooperative Bank of Kenya. USAID covers up to 50 percent of the bank's net loss on the principal amount of up to \$1.5 million in new loans extended under each guarantee to two microfinance institutions, Faulu Kenya Limited and the Small and Microenterprise Program (SMEP).

These guarantees are designed to help Faulu and SMEP access commercial financing to lend to their clients, a membership exceeding 35,000 Kenyans, who operate their own micro and small businesses in rural areas. The Cooperative Bank loans help Faulu and SMEP address some of the challenges that create poverty while increasing the financial benefits to an even larger group of microenterprises.

U.S. “Water for the Poor” Initiative

At the World Summit on Sustainable Development, the United States pledged \$970 million over three years to improve the management of water resources in developing countries around the world. As part of the overall goal, the U.S. “Water for the Poor” initiative promotes the use of loan guarantees to private financial institutions as a way to encourage local currency financing for clean water and sanitation projects. USAID guarantees are expected to generate substantial amounts of credit towards this goal.

Credit guarantees give financial institutions the security to offer their capital as loans for these projects and complement USAID’s grant-funded assistance and training. The guarantees are a powerful tool for involving local governments, non-governmental organizations, water utilities, communities and people in sustainable water infrastructure development activities.

In the past year alone, USAID has used credit guarantees to implement four projects to improve water and sanitation systems in India, Egypt, Morocco, and Bosnia. The use of these guarantees can make local currency financing of nearly \$100 million in new loans available. In India, for example, USAID has set up a bond guarantee to raise \$21.7 million from domestic investors for municipalities in the state of Karnataka. Proceeds from the bond offering will be used to improve and expand water supply and sewerage services in eight municipalities within the Bangalore metropolitan area. Over time these projects can improve water and sanitation services for nearly 500,000 people.

In rural areas of Egypt, USAID established a loan portfolio guarantee to support financing of water and wastewater delivery to 50,000 people with no piped wastewater systems. USAID provides partial guarantees of up to \$40 million in new loans from private banks to local businesses that help municipalities improve both clean water and wastewater services. The benefits include lower water bills for families and businesses, cheaper and more extensive pipe maintenance and better customer service.

USAID’s existing credit guarantees can improve access to clean water and sanitation services for several million people worldwide. DCA is a vital tool to achieve the commitments of the U.S. “Water for the Poor” initiative.



Secretary of State Colin Powell addresses delegates at the World Summit on Sustainable Development in Johannesburg, South Africa.

USAID Guarantees Go Global

For the first time, USAID has established a guarantee to cover loans to small financial institutions in several areas around the world. This guarantee supports a \$2 million line-of-credit from Oikocredit, a Dutch development investment fund to Opportunity Transformation Investments (OTI), an investment fund established to make equity investments in microfinance institutions (MFIs) around the world. The overall goal is to help the group of MFIs that have received equity or get investments from OTI transform into regulated microfinance institutions capable of reaching significant operational scale through greater access to commercial financing and stronger ownership and governance.

Asia & the Near East

Quick Summary of Guarantees for 2003

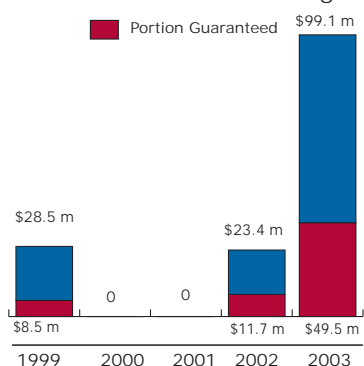
2003 at a Glance

Number of guarantees
12
Total credit made available
\$99.1 million
Amount guaranteed
\$49.5 million
Number of countries
6

Overview of 1999-2003

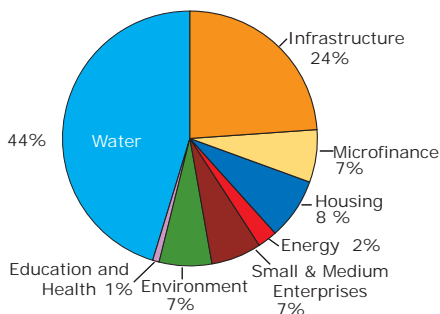
Number of guarantees
20
Total credit made available
\$151.0 million
Amount guaranteed
\$69.8 million
Number of countries
6

New Credit Available Using DCA



Guarantees in 1999-2003 by Development Area

(by amount of lending made available)



Bangladesh

Prime Bank Ltd. - refer to article on next page

Hong Kong and Shanghai Banking Corporation - refer to article on next page

Egypt

Commercial International Bank - refer to article on next page

National Société Générale Bank - Energy/Environment - LPG on total credit of \$10 million

This project is a pilot to test how effectively and efficiently a guarantee can leverage private investment in a number of key sectors: (a) energy efficiency, particularly cogeneration, (b) fuel switching to natural gas, and (c) nature tourism (ecotourism) in ecologically rich areas of the Red Sea Southern Zone.

India

Karnataka WSPF - Water - BG on credit of \$21.7 million

In the Indian state of Karnataka, USAID set up a bond guarantee to raise \$21.7 million in capital from domestic investors. Proceeds from the bond offering will be used to improve and expand water supply and sewerage services for nearly 500,000 people in eight municipalities within the Bangalore metropolitan area.

Morocco

Zakoura - Microfinance - PG on credit of \$4 million

Al-Amara - PG on credit of \$4 million

These guarantees will help forge strategic partnerships between commercial banks and microfinance institutions that want to provide housing credit to lower-income people in Morocco. Each portable guarantee enables the borrowing institution to approach private lenders with a commitment from USAID to partially guarantee its loan.

Fonds d'Équipement Communal (FEC) - Infrastructure - LPG on credit of \$4.7 million

This guarantee supports FEC in financing projects for municipal infrastructure development. The loan portfolio guarantee is unique in that it allows FEC to transfer a portion of the guarantee to local private banks with a credit rating equal to or better than FEC's.

Philippines

Opportunity Microfinance Bank - refer to article on page 5

Vietnam

Asia Commercial Bank - Education - LPG on credit of \$500,000

Despite the pressing need for more people with Master's degrees in business and economics, graduate students have limited access to educational loans that would increase the development of trained mid-level managers. USAID's mission in Vietnam has set up an innovative partial guarantee with the Asia Commercial Bank (ACB) for students to pursue graduate degrees in either economics or business. ACB will use a loan portfolio guarantee to cover up to \$500,000 in student loans. Each student is eligible for up to \$16,000 to pay for tuition at any one of five selected Vietnamese universities. This initiative promotes increased educational lending for a new generation of skilled business managers. The ultimate goal is to demonstrate the financial viability of lending to students for graduate studies.

Asia Commercial Bank - Small and Medium Enterprises - LPG on credit of \$5 million

Eastern Asia Commercial Bank - LPG on credit of \$5 million

These guarantees will cover loans issued on commercial terms to promote increased lending to small and medium-sized enterprises. The use of the guarantees will also lengthen the term of financing available and encourage continued development and expansion of private sector financial intermediaries in Vietnam. The guarantees address financial constraints by adding security to reduce the collateral requirements for bankable projects and building the capacity of partner banks to assess credit quality on a non-collateral basis. The increase in lending may prompt other banks to develop equivalent skills and compete for this untapped debt market.

Increasing Use of Clean Fuels in Bangladesh

Recently, the Government of Bangladesh entered into a partnership with the United States to develop its sources of clean energy, both to benefit the environment and to contribute to Bangladesh's economic growth. The energy sector, which operates using power and hydrocarbons, is a developing area with enormous potential for expansion. Such growth could have a substantial impact on the pace of the nation's economic development.

Through a variety of activities, USAID's mission in Bangladesh is helping to increase the use of clean fuels, such as natural gas, to reduce greenhouse gases. USAID/Bangladesh believes that by enhancing institutional capacity, reducing system losses, encouraging policies that promote the use of cleaner fuels and reducing demand through more efficient usage, the country will benefit from accelerated economic growth and reduced emissions of harmful greenhouse gases.

To support private-sector financial institutions, USAID/Bangladesh established two loan portfolio guarantees on up to \$3.5 million. These guarantees cover loans from Prime Bank Ltd. and the Hong Kong and Shanghai Banking Corporation to two types of enterprises: 1) new compressed natural gas (CNG) filling stations and 2) conversion workshops for the installation of CNG units in vehicles.

Through these agreements, the mission encourages investment in the use of CNG as an alternative fuel source. The guaranteed loans provide capital for entrepreneurs or relevant companies to start businesses that are tailored to the CNG market.



On September 30, 2003, Bangladesh mission director Gene George signed a USAID guarantee agreement with the Hong Kong and Shanghai Banking Corporation in support of Bangladesh's new compressed natural gas sector.

Expanding Egypt's Water Services

Experts estimate that over the next 10 years Egypt will need to invest 50 billion Egyptian pounds (US\$8 billion) in water and wastewater services just to maintain existing facilities and meet consumer demand for service. With government resources already stretched, Egypt will have to rely on its private sector more than ever.

To address the growing need for local commercial capital, USAID's mission in Egypt has provided a guarantee to the Commercial International Bank to lend up to 250 million Egyptian pounds (US\$40 million) for companies doing business with 27 local water utilities. The agreement will give private businesses the capital to help Egypt meet its growing need for water and sewerage services. "Access to clean water is critical to public health, to agriculture, and to rural and urban development," said mission director Kenneth Ellis of USAID/Egypt. "We see this program as one way to increase private-sector expertise and financing in a sector that is critical to the well-being of every Egyptian."



Egypt's mission director Kenneth Ellis (seated foreground) and Egypt's Minister of the Environment (seated left) sign a USAID credit guarantee for urban water projects.

Europe & Eurasia

Quick Summary of Guarantees for 2003

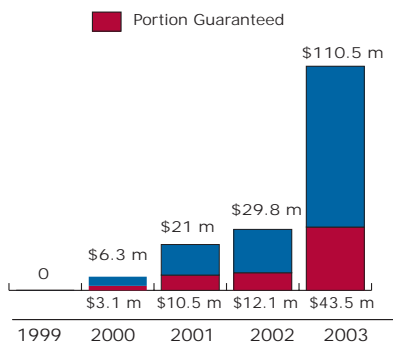
2003 at a Glance

Number of guarantees
16
Total credit made available
\$110.5 million
Amount guaranteed
\$43.5 million
Number of countries
6

Overview of 1999-2003

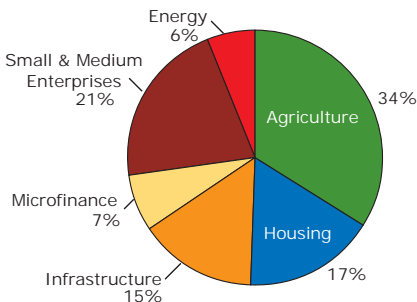
Number of guarantees
22
Total credit made available
\$167.5 million
Amount guaranteed
\$69.2 million
Number of countries
9

New Credit Available Using DCA



Guarantees in 1999-2003
by Development Area

(by amount of lending made available)



Armenia

Anelik Bank - refer to article on next page
Converse Bank - refer to article on next page
INECO Bank - refer to article on next page

Standard Credit OJSC - Capital Markets/Microfinance - BG on credit of \$12 million
Standard Credit will issue a series of short-term corporate debt securities (commercial paper) to raise capital for loans to exporters. USAID will partially guarantee investors in these securities to bolster investor confidence and stimulate greater financial involvement in Armenia's capital markets. Other outcomes of this activity may include increased short-term commercial paper as a viable investment product and additional resources for micro, small, and medium export businesses.

Bosnia and Herzegovina

Volksbank BH d.d. - Infrastructure - LPG on credit of \$25 million
DCA's loan portfolio guarantee secures up to 50 percent of the principal on \$25 million in loans to municipal governments in Bosnia. These loans support revenue-generating projects at the municipal level that will promote economic and environmental development while strengthening the fiscal autonomy of local governments. Examples of potential projects include water (increased capacity, improved metering, decreased water loss), wastewater (sewage pipes, treatment facilities), solid waste (consolidated waste disposal, equipment upgrades) and other infrastructure projects which support municipal development. Over time, the mission's activities will demonstrate the structure and potential benefits available to other financial institutions interested in entering the municipal credit market.

Volksbank BH d.d. - Agriculture - LPG on credit of \$12 million
Zagrebacka BH Bank - LPG on credit of \$9 million
UPI Bank - LPG on credit of \$10 million

Despite growth in deposits and retail lending, banks in Bosnia and Herzegovina are still reluctant to lend to private enterprises. Although some banks are highly liquid, because of legislative and regulatory obstacles, loans to commercial enterprises comprise a relatively small percentage of assets. USAID's mission in Bosnia is using three loan portfolio guarantees to secure up to 50 percent of the principal on loans to enterprises for agricultural production, wood processing and tourism. These guarantees provide a limited form of risk-free collateral to reduce the hazard associated with commercial lending, building the bank's capacity for lending to small and medium enterprises in underdeveloped sectors.

Bulgaria

Hebros Bank - Agriculture/Small and Medium Enterprises - LPG on credit of \$10 million
Post Bank - LPG on credit of \$10 million

In order to address farmer's needs for working capital, USAID's mission in Bulgaria is using two loan portfolio guarantees to promote bank lending to agriculture by (1) mitigating perceived risks, prohibitive collateral requirements, and collateral eligibility problems, and (2) building the banks' experience and capacity for lending to farmers and agricultural processors.



Following the successful repayment of several short-term loans guaranteed by USAID, a packaging manufacturer was able to expand its operations and obtain a large long-term equipment purchase loan without a guarantee.

Moldova

Banca Sociala - Agriculture/Small and Medium Enterprises - LPG on credit of \$1 million

Mobiasbanca - LPG on credit of \$4 million

Moldinconbank - LPG on credit of \$2 million

Rural Finance Corporation - LPG on credit of \$1 million

The Credit Enhancement Project was established by USAID's mission in Moldova to increase access to credit for small and medium enterprises (SMEs) and agriculture producers. Through it, USAID's mission has established four loan portfolio guarantees to partially cover losses on new loans to SMEs and farmers.

Romania

Raiffeisen Zentralbank - Housing - LG on credit of \$7 million

USAID will partially guarantee loans made by Raiffeisen Bank to the Romanian-American Enterprise Fund (RAEF) to assist RAEF in mobilizing long-term financing for its mortgage lending operations. The funds will be channeled through a financial institution created by RAEF, called Domenia, to manage the \$7 million ten-year loan from Raiffeisen Bank. This loan, combined with the infusion of capital by RAEF, will provide Domenia with the necessary long-term financing to commence operations and offer residential mortgages to Romanian citizens. It will also create a secondary mortgage market to provide liquidity for loans to home buyers.

Russia

SDM Bank - Small and Medium Enterprises/Microfinance - LPG on credit of \$3 million

This USAID guarantee encourages SDM Bank to extend loans through its branches to commercially viable small and medium enterprises (SMEs). These businesses often have difficulty accessing credit in formal financial markets due to the perceived risks of lending to small businesses. The use of a loan portfolio guarantee reduces these types of obstacles and helps SMEs access capital to expand their business operations, contributing to the growth of this sector and increased employment opportunities.

More Credit for Armenian Small Businesses

In formal financial markets, banking institutions typically consider small businesses and certain business sectors as risky investments. The collateral required and rates charged to obtain financing can substantially exceed the borrower's assets or ability to pay. As a result, thousands of small and medium enterprises (SMEs) in Armenia suffer from a lack of access to capital, especially for medium- and long-term loans.

The SME Finance Support Project operated by USAID's mission in Armenia overcomes a major obstacle to establishing reliable sources of credit. Under the SME-FSP, private financial institutions are encouraged to extend loans to commercially viable SMEs, providing a loan portfolio guarantee to three banks Anelik, Converse, and INECO. These guarantees cover a total of \$4.5 million in credit available to qualified borrowers primarily for agribusiness and industrial production.

Latin America & the

Quick Summary of Guarantees for 2003

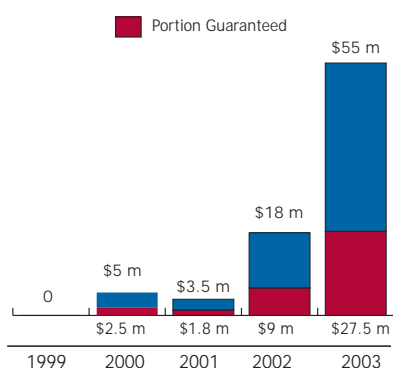
2003 at a Glance

Number of guarantees
9
Total credit made available
\$55.0 million
Amount guaranteed
\$27.5 million
Number of countries
8

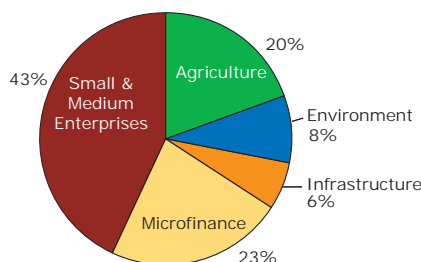
Overview of 1999-2003

Number of guarantees
17
Total credit made available
\$81.5 million
Amount guaranteed
\$40.7 million
Number of countries
9

New Credit Available Using DCA



Guarantees in 1999-2003
by Development Area
(by amount of lending made available)



Guatemala

Banco del Café - refer to article below

Honduras

Atlantida Bank - Small and Medium Enterprises/Microfinance - LPG on credit of \$3 million
Covelo Foundation - LPG on credit of \$1 million

USAID's mission in Honduras has two loan portfolio guarantees to stimulate private sector lending for micro, small, and medium enterprises working in non-traditional agribusiness, tourism, and light industry/manufacturing. The two partial guarantees facilitate greater credit access for enterprises that previously had limited to no access to commercial loans.

Jamaica

RBTT Bank Jamaica Ltd. - Environment - LPG on credit of \$5 million

This loan portfolio guarantee encourages lending to small and medium-sized hotels and manufacturing firms for environmental retrofitting to improve energy efficiency and water conservation. The guarantee also covers loans to micro, small, and medium enterprises for business expansion, fixed asset improvement, working capital and equipment purchases.

Peru

San Martín Rural Savings - refer to article on next page

Señor de Luren Rural Savings and Loan - refer to article on next page

Los Liberadores de Ayachucho Rural Savings and Loan - refer to article on next page

Regional

Ecologic Finance - Agriculture - LPG on credit of \$4 million

Ecologic Finance operates a loan fund that finances eco-friendly businesses located in and around protected terrestrial, coastal, and marine habitats. Previously these businesses were unable to secure financing from local commercial sources. To facilitate the expansion of Ecologic's lending in Mexico, Guatemala, Panama, Nicaragua, and Peru, USAID provides a partial guarantee for eco-tourism and small and medium agribusinesses, including coffee, cocoa, spices, fine woods and fisheries. With the guarantee, Ecologic will expand more rapidly into new markets and increase the available financing for environmentally friendly businesses.

PROARCA

Bancentro (Nicaragua) - refer to article on next page

Banco Panamericano (Panama) - refer to article on next page

Banco Cuscatlan De El Salvador - refer to article on next page

Rural Areas of Guatemala Gain Access to Loans

Banco del Café, a private commercial bank in Guatemala, recently renewed a partnership with USAID to increase available financing for small and medium sized enterprises working in rural areas that have limited access to commercial credit. USAID is providing Banco del Café a partial guarantee on loans made within targeted sectors: tourism, microfinance, agribusiness, and manufacturing. With the \$20 million guarantee, Banco del Café is willing to expand its lending to new businesses in new geographical areas of the country that it otherwise would not have been willing to enter. Additionally, it is anticipated that access to credit facilitated through this guarantee will support the Central American Free Trade Agreement by facilitating access to financing for export-oriented businesses and helping them to compete in a changing marketplace.

Caribbean

Financing Alternative Development Projects in Peru

USAID's mission in Peru supports the expansion of private financing for small-scale agriculture production in Alternative Development Zones. These areas are characterized by the predominance of coca cultivation.

Before the availability of partial guarantees from USAID, small-scale farmers had little or no access to working capital. Their only source was an occasional small loan from buyers with whom they had purchase-order contracts for their crops.

USAID/Peru provides technical assistance to identify and broker such closed value-chain transactions. In addition, the mission has set up guarantees with three small private financial institutions covering 50 percent of risk for both the three small financial institutions and the buyers. Within these activities, the financial institutions make loans to small farmers that already have purchase-order contracts. The buyers can also work with the financial institutions on a for-profit basis to have funds managed and lent.

The loan portfolio guarantee facility is for a total of \$12 million to be utilized over five years. Its innovative structure will stimulate revenue generation and agribusiness growth in high-risk regions of the country.

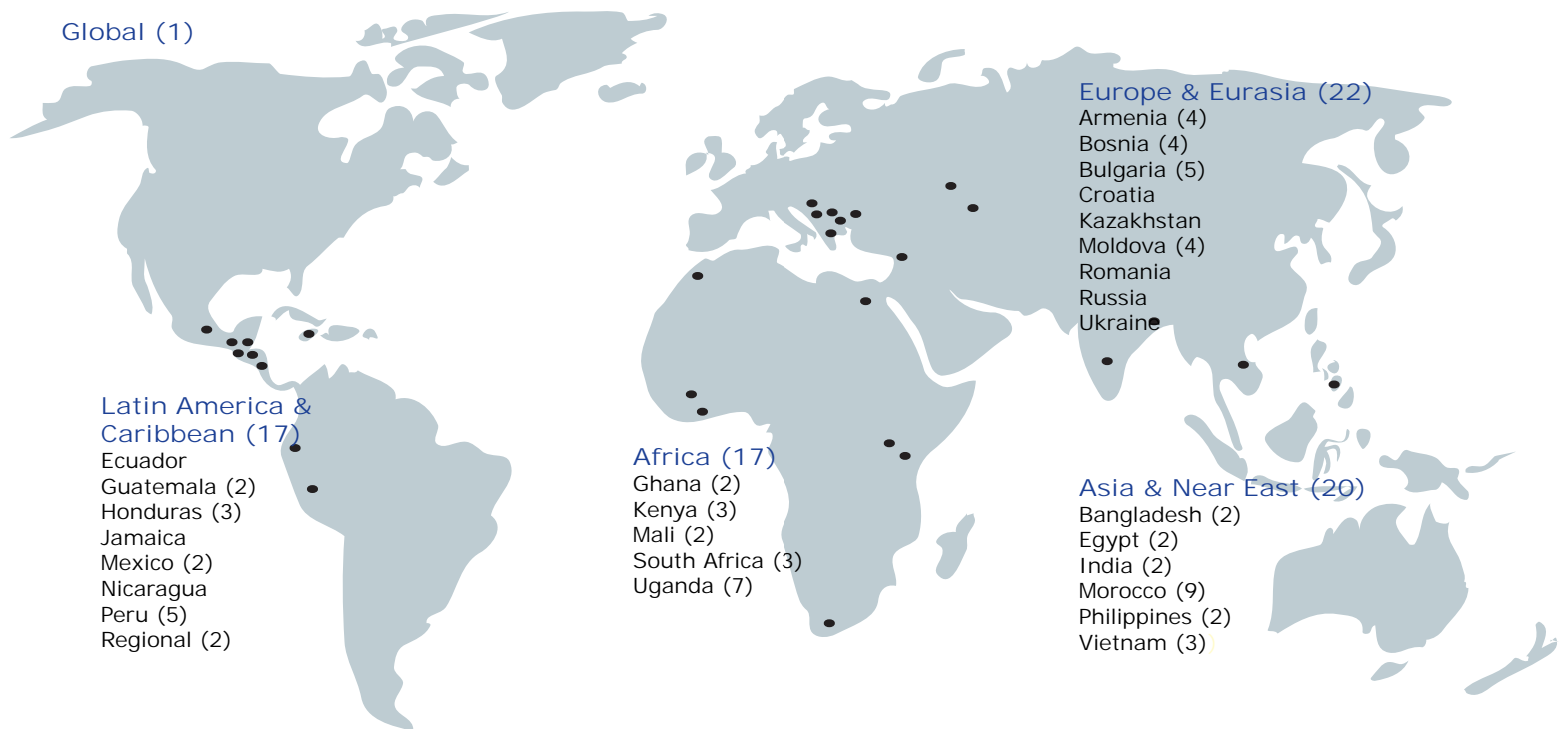


Enterprises in Central America Move to Cleaner Production

USAID, in partnership with local cleaner production centers and five banks in Panama, Nicaragua, and El Salvador, is promoting cleaner production technology. The cleaner production centers, at the request of businesses, do an environmental assessment and make recommendations on management and technology improvements that will have a positive effect on profitability as well as on the environment. USAID shares the cost of these assessments with participating businesses. When cleaner production technology is identified as an appropriate and desired investment, the cleaner production centers assist the businesses in preparing a business plan and the supporting documents necessary to secure local commercial financing.

To encourage local financial institutions to lend for cleaner production, USAID also established a loan portfolio guarantee in each of the targeted countries. As part of a \$10 million guarantee facility, USAID provides a partial guarantee to local banks to mitigate 50 percent of the risk incurred when lending to new clients that want to invest in cleaner production technology.

DCA Credit Guarantees Worldwide



<http://www.usaid.gov> keyword: Development Credit

