CHEMONICS

Development Credit Authority Seminar

2005

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TAB 1: CREDIT AS A DEVELOPMENT TOOL
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Chemonics International Inc., 1133 20th St. NW, Washington, DC 20036
Telephone 202.955.3300, Fax 202.955.3400, www.chemonics.com

Presentation: Credit as a Development Tool

Credit as a Development Tool

DCA Seminar
July 14, 2005

Chemonics International

Why is Credit Important?

•Official Development Assistance is estimated at $65 billion – not enough to achieve Millennium Development Goals.

•Need more private-sector led growth strategies.

•Lending by and to the private sector fuels growth.

•Economic stagnation in developing countries partly due to lack of credit.

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The Credit Challenge

Developing countries and many emerging markets have a low level of financial intermediation:

- Mobilization of deposits and investment capital is limited and not put to productive use.
- Banks hold much of their portfolio in liquid, extremely low-risk assets (i.e. government T-bills).
- Underdeveloped Capital Markets preclude long-term investment, causing limited and expensive term loans, consumer credit, mortgage lending, student loans, etc.

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The Credit Challenge

- Information asymmetry – lack of comprehensive credit reference information and ratings systems.
- Legal environment not conducive – land titling, collateral laws, contracts enforcement, and other.
- Financial Institutions have limited capacity to analyze enterprises and projects; and to evaluate, mitigate, and appropriately price risk.
- Potential borrowers have poor business plans, opaque financial statements, and limited traditional collateral.

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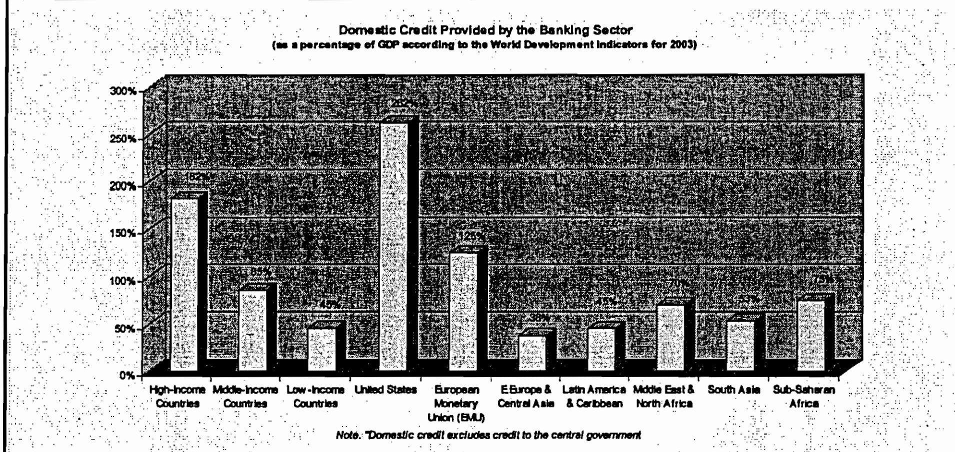
The Credit Challenge



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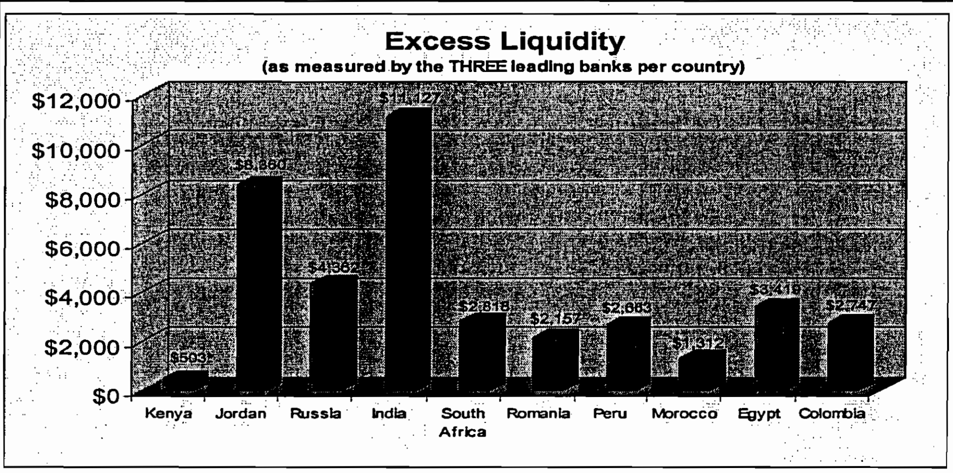
The Credit Challenge



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DCA - One Solution to the Credit Challenge

DCA credit guarantees mobilize local capital and encourages private financial institutions to:

- reduce their risk perception to provide access to credit to underserved markets.
- reduce their excess liquidity.
- improve capacity to assess and manage risk.
- provide longer term lending.
- reduce inappropriate collateral requirements.
- offer market-based interest rates.
- invest in local development efforts in lieu of and/or in addition to USAID and other donors.

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Why Credit Guarantees Instead of Grants?

Sustainability and Impact

•Lenders learn about lending to new markets, and will continue to do so in the future.

•Market demonstration effect causes growth of local credit markets.

•Competition creates more diverse and affordable credit.

Cost-Effectiveness

- Private lenders are putting their own capital at risk, and using their human and other resources.
- USAID can use a small portion of its budget for a guarantee, and more effectively use grant funds for capacity building and other activities that are not financially viable.

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TAB 2: OVERVIEW
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Chemonics International Inc., 1133 20th St. NW, Washington, DC 20036
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Presentation: DCA Overview and Guiding Principles

DCA
Overview and Guiding Principles

DCA Seminar
July 14, 2005

Chemonics International

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DCA Overview

- **Guarantees:** DCA allows USAID to issue partial loan guarantees to private sector lenders, pledging to cover the lender's risk of borrower default up to 50% of loan principal.
- **Another Tool:** DCA is an additional tool like contracts or grants, to advance USAID Mission SOs or other USAID development objectives.
- **Leverage:** DCA projects represent public-private partnerships and leverage substantial private sector resources – historic ratios have averaged 25:1.

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Rationale for DCA

- **More Impact.** Enhances the impact of development programs through cost-effectiveness and additionality.

- **Sustainability.** Offers a Private Sector led Sustainability Strategy: private local capital investing in local development initiatives provides an exit strategy for projects and USAID Missions.

- **Symbiotic Partnership.** Engages the private sector in a mutually-beneficial and cost-effective partnership model, contributing to GDA goals.

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Rationale for DCA

- **Demonstration Effect.** Provides a demonstration effect to lenders that development projects / borrowers are creditworthy and a profitable market.

- **Competition.** As more lenders enter the market, competition leads to better terms for borrowers.

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DCA Guiding Principles

- **Mission Driven:** DCA is a demand-driven initiative. USAID Missions and Bureaus have primary responsibility for designing, authorizing and implementing activities that support development objectives.

- **Support for SOs.** DCA must be used for activities in support of USAID Strategic Objectives (it is part of a Mission's overall strategy and should be complementary to TA and policy reform efforts).

- **Where can it be used?** DCA is available for all USAID-presence countries (with a few exceptions), and all sectors in which USAID works.

DCA Guiding Principles

- **True Private Sector Risk-Sharing.** USAID covers no more than 50% of a lender's risk, with at least half of the default risk covered by a private sector lender.
  - Reduces Moral Hazard
  - Leverages Resources of Local Banks

- **Private Sector Only.** Borrowers and lenders must be non-sovereign. Municipalities and local governments are non-sovereign and applicable for DCA.

- **Financial Viability.** Each activity funded under DCA must be financially viable (i.e. sufficient cash flows to meet all operational costs and service all the debt).

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DCA Guiding Principles

- **Market Imperfections.** DCA will be used to address market imperfections. Assistance shall be made at market rates so as not to distort existing financial markets.
- **Additionality.** DCA must not be used unless it is probable that the transaction would not go forward without it, taking into consideration whether such financing is available for the term needed and at a reasonable cost.

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DCA Guiding Principles

- **Demonstration Effect:** DCA seeks to demonstrate to local banks that the new lending is profitable and thus to encourage future lending without guarantees.
- **Currency Mismatches are Strongly Discouraged.** Revenues generated by DCA-supported activities should match the currency of a borrower's debt obligations.

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DCA Guarantees May Not…

- Guarantee other donor or government backed funds or guarantee facilities such as rediscounted government credit lines, or EBRD/WB/ADB credit lines.
- Guarantee sovereign debt.
- Provide guarantees in countries that do not yet have a risk rating.

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DCA Guarantees May Not…

- Guarantee equity investments – DCA can only enhance debt instruments (loans, bonds, debt securities, etc.). But it can guarantee a <u>loan</u> to a socially responsible investment fund.
- Guarantee financing for illegal activities per standard USAID regulations.

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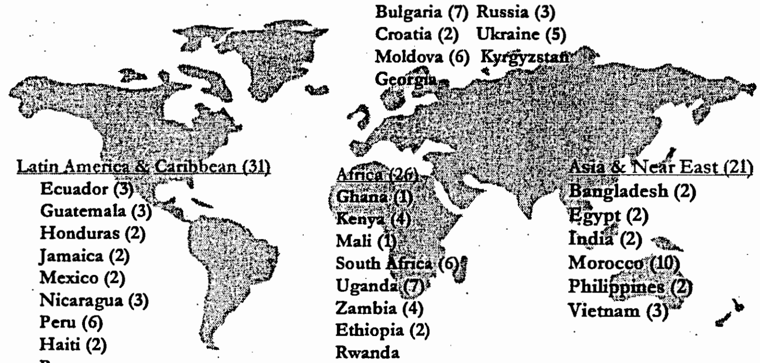
DCA Global Reach

As of October, 2004



Global (2)

Europe & Eurasia (36)
Armenia (4) Kazakhstan (2)
Bosnia (4) Romania
Bulgaria (7) Russia (3)
Croatia (2) Ukraine (5)
Moldova (6) Kyrgyzstan
Georgia

Latin America & Caribbean (31)
- Ecuador (3)
- Guatemala (3)
- Honduras (2)
- Jamaica (2)
- Mexico (2)
- Nicaragua (3)
- Peru (6)
- Haiti (2)
- Panama
- Regional (7)

Africa (26)
- Ghana (1)
- Kenya (4)
- Mali (1)
- South Africa (6)
- Uganda (7)
- Zambia (4)
- Ethiopia (2)
- Rwanda

Asia & Near East (21)
- Bangladesh (2)
- Egypt (2)
- India (2)
- Morocco (10)
- Philippines (2)
- Vietnam (3)

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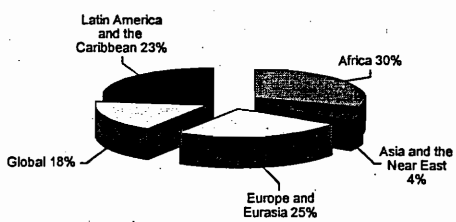
Summary of 2004 Guarantees

- Number of Guarantees: 36
- Total Credit Made Available: $278,733,334
- Amount Guaranteed: $102,916,667
- Cost to USAID: $10,285,880
- Number of Countries: 22

2004 CREDIT MADE AVAILABLE BY REGION (from amounted note above)



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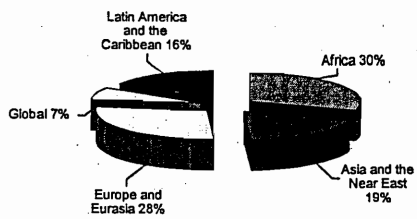
Entire DCA Portfolio: 1999-2004

- Number of Guarantees: 114
- Total Credit Made Available: $855,799,334
- Amount Guaranteed: $335,249,667
- Cost to USAID: $28,106,780
- Number of Countries: 36

TOTAL CREDIT MADE AVAILABLE BY REGION
(from amounted note above)



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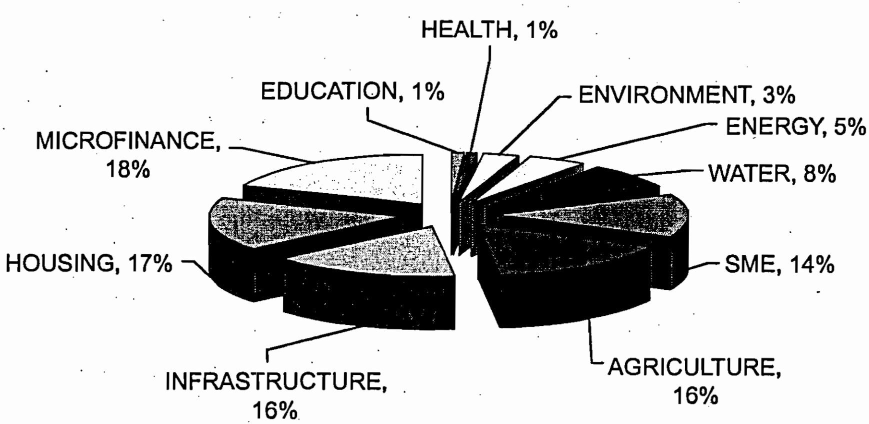
Total DCA Usage by Sector



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DCA Operations Manual

DCA OPERATIONS MANUAL

USAID Office of Development Credit
Bureau for Economic Growth, Agriculture & Trade
(EGAT/DC)

April 2004

DCA Operations Manual
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Section-Page

I. Background

A. Introduction to the Operations Manual

This manual provides the USAID Office of Development Credit (EGAT/DC) with guidance on standard operating procedures among its teams – Project Development (PD), Portfolio Management (PM), Risk Management (RM) – and other staff for Development Credit Authority (DCA) guarantees. The *DCA Operations Manual* is not a stand-alone document. The Automated Directive System (ADS) comprises USAID's official, written guidance on policies, operating procedures, and delegations of authority for conducting USAID business. ADS No. 249 (http://www.usaid.gov/pubs/ads/200/249.doc) provides specific guidelines to the policies and procedures of DCA. Based on the policies outlined in the ADS No. 249, two manuals have been produced to further detail internal guidelines for DCA projects. The *DCA Operations Manual* provides EGAT/DC and USAID Missions and Bureaus with a set of standard operating procedures for DCA, while the *USAID Development Credit Risk Assessment Handbook* details how to assess DCA credit risk.

Additional reference materials that guide the EGAT/DC activities will also be referenced in this manual, e.g., Office of Management and Budget (OMB) circulars, other ADS sections.

> This manual focuses primarily on DCA guarantees. However, EGAT/DC also maintains certain responsibilities for the management of the Micro and Small Enterprise Development (MSED), Urban Environment (UE), and Israel credit portfolios. These responsibilities will also be described in this document.

B. DCA Overview

Authorized by Congress in FY1998 and certified by OMB in FY1999, the Development Credit Authority (DCA) provides overseas USAID Missions[1] with a tool by which they may encourage the use of credit and expand financial services in underserved markets. This Authority, supported by the USAID Office of Development Credit, allows USAID Missions to partner with local lending institutions in making resources available for investments that support development objectives. Through DCA, Missions insure a portion of the risk with the lending institutions. As a result, a small amount of USAID development assistance funding facilitates the local banking sector and other sources of private capital to take on projects that otherwise would not be funded.

DCA seeks to provide USAID with the flexibility to make more rational choices about appropriate financing tools - loans, guarantees, grants or a combination - used in project development. DCA is not a separate program, but rather a financing account similar to Development Assistance (DA), Economic Support Fund (ESF), or Support for East European Democracy (SEED).

[1] Throughout this manual, a "Mission" is identified as the USAID operating unit that can originate and develop a DCA project. Regional and technical USAID Bureaus can also develop DCA projects; Missions are solely identified to simplify this document.

Credit projects offer several distinct and attractive advantages over other forms of assistance:

- Access to local private capital – there is a large reserve of untapped capital in the private sector, which presently is not available to certain sectors and markets. The use of credit guarantees can provide the security to make that capital available for projects to develop key sectors and financial markets.
- Risk is shared to encourage lending - DCA guarantees cover up to 50% of a lender's risk in providing financing and are often coupled with training and technical assistance designed to strengthen local financial institution's long term interest in local credit markets, beyond DCA's support.
- Mobilization of local private capital – credit guarantees encourage local market participants to utilize private capital to develop activities that may otherwise be cost-prohibitive or infeasible due to lack of access to financial markets or resistance in lending by financial institutions.
- Benefits of credit demonstrated (the "demonstration effect") - as guaranteed loans demonstrate profitability, benefits of such lending are demonstrated to the guaranteed party and local financial institutions are more likely to expand financial services to traditionally underrepresented economic sectors and social groups that are the beneficiaries of guaranteed loans. Also, the partial credit guarantee leaves the guaranteed lender with real risk and an incentive to undertake thorough due diligence and careful monitoring of the loan. This process enables the guaranteed lender to develop its internal capacity for profitably making similar loans in the future.
- Agency resources are maximized - USAID can leverage up to 25 times the per-dollar-impact by using credit to finance development activities.

C. DCA Products

Private sector resources can be mobilized in many ways through a number of appropriate financial instruments available under DCA. The four DCA credit tools available to Missions are described below. The use of these instruments can be modified and tailored to address a particular project's financing needs.

Loan Guarantee
The typical Loan Guarantee (LG), also referred to as a project-specific guarantee, allows USAID to use DCA for specific credit enhancement purposes in cases where the borrower, lender, and uses of loan proceeds are known.

Loan Portfolio Guarantee
A Loan Portfolio Guarantee (LPG) provides financial institutions with partial coverage on a portfolio of loans that they provide to their customers. In the case of the LPG, USAID agrees to share in the risk of a broadly defined category of bank loans with a view toward inducing local banks to extend credit toward an underserved sector. The individual borrowers under a LPG are not predetermined at the time the Guarantee Agreement is signed, but the borrowers must fall within a pre-agreed definition of "Eligible Borrowers," such as borrowers that are small businesses operating in a specific geographic area.

Bond Guarantee
Bond Guarantees (BG) support the issuance of bonds by financial institutions, private sector corporations, or sub-national entities. The funds generated from the bond issuance can, for example, assist in raising local funds to initiate municipal infrastructure or utility projects, which require substantial upfront capital investments. The Bond Guarantee or guarantees for other types of debt instruments[2] are typically an option for DCA credit assistance if the capital and financial markets are fairly well advanced in a particular country to support a bond issuance. However, the DCA guarantee can also be used to encourage the development of bond issuances in less sophisticated markets.

Portable Guarantee
Slightly different than the Loan Guarantee, the Portable Guarantee (PG) provides an identified potential borrower with a letter of guarantee commitment through which the borrower may seek the most advantageous terms from the local financial market. Portable Guarantees are appropriate for specific credit enhancement purposes when the borrower is known, but the lender is not yet known. In these cases, a minimum credit rating (e.g., from rating agencies such as Standard & Poor's and Moody's) is established, and the risk calculation and subsidy cost are based on the assumption that the eventual lender will have a rating equal to or above this minimum rating.

D. DCA Guiding Principles

Following is an abridged version of the DCA guiding principles as detailed in the ADS 249. Refer to this section of the ADS for more information.

- DCA is principally intended for credit enhancement purposes and may be used where (a) the Agency's sustainable development objectives may best be achieved effectively using credit, and (b) the risks of default may be reasonably estimated and managed.
- DCA is not a separate program, but rather a financing tool to be used in addition to or in lieu of grant funding where appropriate. Accordingly, the principles and policies applicable to the use of Development Assistance (DA) grant funding are presumed to be equally applicable to DCA funding, unless otherwise indicated.
- DCA loan guarantee agreements will be utilized only when the partner is a non-sovereign entity. For any sub-sovereign government entity involved in a DCA guarantee, e.g., municipalities, the entity must demonstrate strong financial discipline and management.
- DCA shall be a demand-driven initiative, with Operating Units having primary responsibility for designing, authorizing, and implementing activities in support of approved Strategic Objectives and within Administration and Congressional priorities for assistance.
- DCA operations require a clear separation of responsibility for assessing the developmental soundness and the financial soundness of each activity, with the latter responsibilities entrusted to the Credit Review Board (CRB) and the Chief Financial Officer (CFO).
- DCA requires true risk sharing. For loan guarantee transactions, USAID shall not cover more than 50% of a lender's risk unless the CRB otherwise approves.

[2] "Other debt instruments" include (for example): securitizations, structured finance arrangements that involve several tiers or layers of various investment classes.

- DCA financing shall not be used unless it is probable that the transaction would not go forward without it, taking into consideration whether such financing is available for the term needed and at a reasonable cost.
- DCA assistance shall be made at or near market rates. Direct loans shall be made at or above the U.S. Treasury cost of borrowing for comparable maturities.
- DCA fees shall be based on risk with higher risk activities being charged higher fees to the extent feasible, taking into consideration the costs of the development conditionality imposed on the activity.
- Currency mismatches are discouraged. Currencies earned by DCA activities should match the borrowers' liabilities.
- DCA is intended to produce greater development impact and increase Agency performance as reported under the Government Performance and Results Act (GPRA). DCA is not intended for budget support or to increase the nominal assistance levels to specific borrowers.
- DCA is intended to be used in USAID presence countries in support of Agency Strategic Objectives and in support of Mission-financed policy and institutional reforms. DCA is also appropriate for use as part of an exit strategy in countries where USAID assistance is being phased out.
- DCA is intended to address market imperfections. Activities eligible for DCA financing shall have positive financial rates of return.

II. Project Development

A. Overview

The EGAT/DC Project Development (PD) team is responsible for coordinating the development of new DCA guarantees with Missions or other USAID operating units. In many cases, the PD team will respond to Mission ideas on projects that could benefit from a DCA guarantee. In other situations, the PD team can also pursue a more proactive approach by contacting Missions to encourage the development of a DCA guarantee. EGAT/DC PD team support can also include: 1. Meeting with local financial institutions to explore possible links between lending activities and Missions Strategic Objectives (SOs), and 2. Brainstorming with Mission staff about potential ideas of how DCA can help the Mission achieve its SOs. The principal characteristics of this initial idea should be summarized in a "Concept Paper".

Following EGAT/DC review of this Concept Paper to ensure the proposed idea adheres to ADS 249 guidelines (http://inside.usaid.gov/EGAT/off-dc/ads-249_summary_checklist.pdf), the Mission and PD team will develop the Action Package to be presented to the Credit Review Board (CRB). At the same time, the Regional Legal Advisor drafts the basic terms and conditions of the legal agreement based on existing templates from the USAID Office of General Counsel. Upon completion of a significant portion of the Action Package, the EGAT/DC Risk Management (RM) team prepares the risk assessment, which is detailed in Section III of the Operations Manual and results in the calculation of the subsidy cost estimate. The risk assessment is the last section of the Action Package to be completed prior to CRB review. Following the CRB's recommendation for CFO approval of the subsidy cost, funds are transferred to the DCA account according to federal government procedures to be obligated at the Mission level through the signing of a legal agreement.

Further guidance on how a DCA project is developed can also be found in the *10-Step Guide to Preparing a DCA Project* (http://inside.usaid.gov/EGAT/off-dc/index.html). The process, when all relevant parties, e.g, the Mission and the lending institution, are committed to the guarantee, should take no more than four to six months from the Concept Paper stage to the signing of guarantee agreement.

B. Concept Paper

1. Writing a Concept Paper

A Mission identifies an opportunity to use credit to support one or more of its strategic objectives and/or ongoing activities. As the idea is developed, the Mission is encouraged to communicate with the EGAT/DC PD Team to obtain technical guidance related to credit tools/projects. Missions should take advantage of EGAT/DC institutional knowledge to consider lessons learned from previous DCA projects.

To summarize this project idea, the Mission prepares a 2-3 page DCA Concept Paper using the following recommended outline. This step in the process, although not a requirement for ultimate project approval, can be extremely beneficial to the Mission prior to spending significant time and effort on the subsequent steps.

a) Description and Purpose of Project
- Background and Rationale (briefly describe what the Mission proposes to do and why)
- Developmental Importance
- Relationship to Mission Strategy/SOs/Ongoing Activities
- Collaboration with Other Parties, e.g., Donors, NGOs, Contractors, etc.

b) Structure of Project
- Financial Intermediary (provide brief background, if available)
- Borrower (provide brief background, if available)
- Intended Beneficiaries (if different from borrower, if available)
- Type of Credit Facility (loan guarantee, bond guarantee, portfolio guarantee, portable loan guarantee)
- Estimated Amount of Project Financing (maximum portfolio size - US$ amount)
- Guarantee Ceiling (maximum USAID contingent liability -US$ amount)
- Guarantee Percentage (%) (covering principal only [preferred] or principal and interest)
- Term of Guarantee (number of years)
- Currency of Guarantee (US$ or local currency)

c) Funding Source and Amount Available for DCA Credit Subsidy
(Proposed funding transfers from existing budget resources)

d) Management Responsibility
- Initial project monitoring plan
- Clear identification of parties responsible for project development and implementation

e) Proposed Technical Assistance to support the DCA guarantee

f) Estimated Time Frame for Project Implementation

2. Reviewing a Concept Paper

The Mission and EGAT/DC PD team should adhere to the following guidelines to ensure the proposed DCA guarantee adheres to ADS 249 guiding principles: http://inside.usaid.gov/EGAT/off-dc/ads-249_summary_checklist.pdf. If EGAT/DC considers the proposed project extremely risky, it will discuss the Concept Paper and provide technical feedback to the Mission. Consequently, the Mission may engage in efforts to restructure the proposed guarantee to reduce these perceived risks or it may abandon the project at this stage.

The EGAT/DC PD team Relationship Manager may decide to convene a meeting to review the Concept Paper among EGAT/DC staff in order to provide feedback to the Mission as it further develops the idea and begins to prepare the Action Package. The Relationship Manager should summarize the feedback from this meeting in an email to the Mission contact person. Once internal Mission approvals for the Concept Paper are in place, work can begin on the Action Package.

C. Action Package

Unless otherwise noted, the Action Package is the responsibility of the Mission in coordination with the EGAT/DC PD team. This document can also be developed in conjunction with Mission contract support.

1. Action Memorandum

The template of this memorandum is presented in the following diagram and it is available on the USAID intranet – http://inside.usaid.gov/EGAT/off-dc/forms-tools.htm. The EGAT/DC PD team ensures that the memorandum is properly updated with the appropriate names of the USAID CFO and the CRB Chair. Prior to submitting the Action Package to the CFO, signatures of the Mission Director and the CRB Chair are necessary. The Mission should also ensure that its Regional Legal Advisor (RLA) and Controller are aware of the Action Package.

TO:	[Name], Chief Financial Officer
FROM:	[Name], Chairman of the Credit Review Board
SUBJECT:	CRB Recommendation for [Approval] of Development Credit Authority Activity in [Country]

As described in the attached documents, USAID/[Mission] intends to sign a [bond/loan] guarantee agreement with [guaranteed party] in [country] in support of the Mission's [Strategic Objective.] To successfully implement this agreement, USAID/[Mission] agrees to adhere to its Monitoring Plan responsibilities as outlined in this document. The Credit Review Board has reviewed this transaction and found that the risk has been appropriately assessed and that there is reasonable assurance of repayment of the obligations covered by these guarantees. Furthermore, the CRB has approved the subsidy cost to be associated with this activity and believes the Office of Development Credit has adequately provisioned for the risk entailed in this prospective agreement.

RECOMMENDATION
That the CFO sign below and thereby approve the findings of the Credit Review Board and the recommendation of the Chairman of the Credit Review Board with regard to this activity.

(approvals by CFO and Mission Director)

2. Project Information Sheet

The Mission with assistance from the EGAT/DC PD team will complete the following Project Information Sheet template, with the exception of risk assessment data, which is an EGAT/DC RM team responsibility.

Project Identifier:	[Shorthand identifier for the activity, e.g., the name of the primary counter-party]

Country		Mission/Bureau	
Mission/Bureau Program Officer		Fin. Viability Analyst	
ODC Relationship Officer		Credit Analyst	
	Concur:	Chief Risk Officer	Kathleen Wu

Type		Guarantee Number	
Lender(s) /Guaranteed Party			

Borrower(s)	

Mission SO(s) Supported by Activity
Sector
Activity Description

Performance Indicators *(Please provide a list of key measures of the benefits and performance of this activity)*	

Max. Cum. Disbursements ($)		Guarantee currency	
Term *(years)*		Type of Risk sharing	
Interest Rate (%)		Guarantee percentage	
Revolving?		Guarantee ceiling ($)	
Initial Disbursement *(year)*		Payment guaranteed	

Notes on Transaction Terms	

Commitment Fee ($)					
Utilization Fee (%) p.a.		Util. fee payment Basis		NPV ($)	

For Loan Portfolio Guarantees (LPGs)	
Est. number of sub loans	
Est. avg. sub-loan maturity (years)	
Est. avg. size of sub-loans ($)	
Max. auth. Portfolio Amount ($)	

For Bond Guarantees	
Type	
Coupon (%)	
Trustee	
Investors	
Secondary Investors	

Subsidy Cost	$	%	Net Defaults		Fees		Nom. Defaults	

Funding Source/FY	

WARF Score			
Country (%)		Borrower (%)	
Lender (%)		Transaction (%)	

Key Risk Factors: Brief list of key factors (e.g., nature of the lending activity, specific management concerns, sectoral concerns, etc.)

Special conditions for approval:

3. Activity Description

The Activity Description section outlines the structure of the proposed DCA guarantee. The Mission typically includes a description of the developmental objective of the activity – i.e., how the proposed activity and its expected outcomes will contribute to current or new Strategic Objectives (SOs). New intermediate results and indicators may be developed for the proposed DCA activity, as deemed appropriate and necessary by the Mission.

The Mission writes the Activity Description, borrowing from the Concept Paper. The Activity Description is not submitted to the Credit Review Board for approval; however, it is included in the Action Package for reference purposes.

4. Economic Viability Analysis

The Economic Viability Analysis (EVA) is the assessment of an activity in the context of the host country's economy. In essence, this analysis justifies the utilization of the DCA guarantee in light of the economic and market factors relevant to the proposed activity. In other words, the EVA reviews USAID's role in the DCA transaction and the value added by the guarantee. The analysis should discuss how USAID's proposed guarantee is unique and necessary in this market, why USAID is not "crowding out" the private sector or duplicating the efforts of other donors in this initiative, and why the type of financing to be provided through the guarantee is not otherwise available in the market to the target group of borrowers.

In short, the EVA should determine whether the proposed DCA activity is worthwhile for the country/region, and as appropriate, assess the activity's impact in light of economic costs and benefits to the host country.

In addition to a brief justification of the guarantee with respect to the economic conditions of the host country, two specific points should be addressed in the EVA:

- *Market Imperfections*: The activity will address in-country market imperfections.
- *Additionality*: The DCA credit instrument will not supersede private sources of financing and USAID is a guarantor/lender of last resort in such a way that the activity would not be possible without DCA. This is referred to as "additionality", which implies that the guaranteed party would not extend the loan to the beneficiary without the DCA guarantee.

In-country Market Imperfections

This component of the EVA addresses the overall conditions of the sector impacted by the potential DCA activity. The term "market imperfections" implies that the supply generated by market participants is insufficient to meet the demands of market customers.

Market imperfections may also refer to specific barriers that discourage or prevent the entry of new approaches, e.g., renewable energy, microenterprises, and municipal infrastructure, into an existing market scheme. A common manifestation of these barriers is limited access to capital, represented by a banking sector's unwillingness to lend to a new approach or a new sector. This unwillingness often stems from a lack of historical references for repayment abilities or unavailable or asymmetric information, as well as overly-cautious lending practices. In this regard, the EVA should address how the DCA credit instrument will help overcome some of these barriers, which currently limit market-based lending to the proposed project/sector.

Additionality

The DCA guarantee credit product should not displace the demand for capital and debt financing that could be fulfilled from private sector resources. This can be justified by confirming that the overall commercial banking sector is unwilling or extremely hesitant to lend funds to a particular sector and/or borrower on loan terms and conditions comparable to other borrowers, e.g., loan tenor.

Furthermore, the EVA can indicate if the banking sector charges exorbitant interest rates or requests excessive collateral due to the perception of high risk towards this sector. The EVA highlights how the use of DCA extends credit to a project based on its actual risks, not its perceived risks. In this sense, DCA intends to be a catalyst, providing demonstration effects to more properly align the host country financial sector's perception of risk with actual project risks in a certain sector. For example, the EVA could describe how the DCA guarantee intends to result in a decline in collateral requirements for a particular borrower. The borrower would then be in a position to demonstrate an ability to re-pay its debt and establish a favorable credit history; thereby eventually having the impact of lowering a bank's perception of the borrower's risk.

Discussions with financial institution representatives related to a DCA proposal should confirm that the DCA guarantee provides an increased level of confidence from their perspective to facilitate the credit to the project. Without the DCA guarantee, financial institutions would be unwilling to lend to the borrower. In other words, the EVA must provide evidence that the involved or identified financial institution(s) would not extend credit to the activity if it were not for the DCA guarantee. In the case of a portable guarantee, the potential borrower should confirm that DCA will be the unique factor to enable the project/sector to benefit from fair, market-based debt financing.

5. **Financial Viability Analysis**

The Financial Viability Analysis (FVA) is an assessment of the adequacy of a project's or an activity's financial return for the borrower(s) and/or the lender(s). Generally speaking, DCA assistance (and USAID economic assistance) should be targeted toward sectors that are competitive or hold the promise of being competitive if the requisite reforms are undertaken. More specifically, as a reflection of the sustainability of economic activity in the sector, an activity should be funded under DCA only if the borrower is able to pay its operating and maintenance costs and financial obligations, including loan principal and interest payments. Likewise, the activity should be sustainable (i.e., capable of generating adequate rate of return) for lenders or investors as well. In the absence of these two conditions, the Mission or Bureau should reconsider the appropriateness of credit as a development tool for this specific project.

The FVA is a quantitative determination of whether the proposed DCA project or activity is likely to yield a positive financial rate of return for borrowers and partner financial institutions (lenders) or investors. In other words, based on expected cash flows, the FVA:

- Assesses the ability of the borrower(s) to meet its financial obligations and service the debt related to the activity, and
- Ensures that the activity is unlikely to generate losses for the lender or investors.

To do this, the FVA thoroughly examines the cash flows of the project or activity over the lifetime of DCA assistance and analyzes rates of return appropriate for the endeavor. Since the project or activity must be examined for both the borrower and the lender, there are in fact *two* analyses. The analyses are summarized at the end through calculation of the net present value (NPV) of the project or activity for both the borrower and the lender, along with calculations of its internal rate of return (IRR) for each.

Although there are two types analyses (borrower or lender), it is necessary to complete only one, depending on the DCA project being considered. As a general rule, the financial viability analysis must be performed for the component of the activity where the developmental benefit of the activity is focused. For example, the developmental purpose behind most loan portfolio guarantees covering small or micro business loans is to increase access to credit for that sector. For the primary developmental effect (increased lending to small businesses) to be sustainable, such lending must be financially viable for the lender. Thus, for such a project, the FVA will cover the financial viability of the project from the lender's perspective. While the Mission will need to gather some information related to the profitability of businesses within the targeted sector (this information will inform estimates of the risk--and thus the returns required by lenders), the primary focus of the FVA will be on the lender. For loan portfolio and lease portfolio guarantees to multiple borrowers, the lender viability analysis is generally more important than the borrower viability analysis. For loan guarantees and bond guarantees to single borrowers where the developmental purpose behind the activity is more closely related to the borrower's activities (e.g., a loan guarantee for a borrower who is introducing new innovative technologies to a market), the borrower viability analysis is substantially more important than the lender viability analysis.

The length and coverage of the financial viability analysis is left to the discretion of the analyst. FVAs can range from two to 20 pages depending on the quantity and quality of information available to the analyst and the complexity of the project and guarantee facility. The analyst should provide a brief discussion of the issues raised below based on the relevancy to the project in question. In many cases, a brief description of the key forecasting assumptions followed by presentation of simple cash flow projections will suffice. Missions should contact EGAT/DC with any questions regarding the scope and necessary level of detail of a FVA. Generally, Missions often find that after preparing an initial outline of the FVA, the EGAT/DC PD Relationship Manager can offer useful guidance that helps focus the analysis and thus reduce the amount of work involved. As such, we encourage each Mission to contact its Relationship Manager as it begins to work on the FVA.

Note that the focus of the FVA is on the project or activity, as opposed to the overall operations of the borrower(s) or lender(s). This narrow focus provides for a determination as to whether the *direct sources* of repayment for the loan are adequate to cover the borrower's obligations and provide profits for the lender. In other words, the narrow focus assesses whether the project or activity is operationally sustainable on an incremental basis; in economic terms, the project or activity would thus be profitable "at the margin." The credit risk assessment will separately consider other aspects of the overall operations of the borrower(s) and the lender(s), since there are also indirect sources of repayment for the loan (for example, from existing ongoing business activities).

In most instances, however, the new activity is closely related to the existing activities of the borrower(s) and the lender(s). Cash flow projections and calculations of rates of return for the new project or activity would thus be appropriately based on historical cash flows and rates of return for the borrower(s) and lender(s), so careful attention to past years' audited financial statements is required. In instances where the new activity is not similar to the existing activities of the borrower(s) or lender(s), attention must be focused on the assumptions underlying the new activity to generate the cash flows and rates of return. These issues are discussed in more detail in the next three sections on activity viability for the borrower, activity viability for the lender, and discount rates. Additional general guidance for the FVA is provided in the final part of this section or can be obtained from EGAT/DC relationship managers.

a) FVA Part I – Activity Viability for the Borrower

Calculating borrower financial viability involves determining the estimated sources and uses of cash required by the activity. Simply put, viable activities are characterized by projected revenues that exceed projected operating costs and investment expenditures. Once the revenue and cost streams have been estimated for the length or term of the repayment of the borrowed funds, the cash inflows and outflows are compared to determine whether the proposed activity generates adequate income to support anticipated debt service and issuance.

There are two main types of loan guarantee projects – those for single borrowers (e.g., loan guarantees, portable guarantees, and bond guarantees) and those for multiple borrowers (e.g., loan portfolio guarantees and lease portfolio guarantees). The data collection and analysis required will vary significantly between these two categories.

Single Borrowers
In the case of guarantees provided for a single project or company, i.e. loan guarantees, portable guarantees, and most bond guarantees, the financial viability assessment should focus primarily on the borrower's ability to repay and service the debt.

In most circumstances, the focus is on the new activity being financed, and borrower viability should analyze the cash flows associated with the new project. This is clearly the case for "project finance" which has no recourse to cash flows or assets outside the project. (Project finance is addressed in additional detail below.) It is also typically sufficient to examine the cash flows associated with the new activity even when the loan has recourse to cash flows and assets outside the projects, as long as the project cash flows analyzed:

- are based on the historical performance of the borrower's existing projects, under the assumption that the borrower's past performance best represents its future performance, and
- fully consider the impact on the other cash flows of the borrower (which is the issue of incremental cash flows developed below).

Recall that while the credit analysis of the project will take such alternative sources of repayment into account, the project or activity should be sustainable on a stand alone basis. One exception to this rule, for example, is for municipal borrowers, which are often forced to cross-subsidize activities due to market imperfections related to tax authority and customers' willingness to pay for municipal services.

Obtaining project/company information/projections. Prior to conducting the assessment itself, the analyst must obtain project or company information and projections regarding future performance. Most borrowers should be able to present financial statements (balance sheets and income statements) for the past three years as well as financial forecasts during the projected timeframe of the DCA guaranteed credit activity. Ideally, the financial statements will have been audited. At a minimum, most lenders and investors will have required borrowers to produce historical accounts of their performance as well as projections for future growth.[1]

Assessment. With the appropriate financial statements and project information in hand, the analyst is ready to perform the financial viability analysis for the borrower. This assessment can be broken into four main steps.

- **Step 1 – Prepare and Examine Assumptions.** The most important step is to prepare and examine the assumptions which produce the numbers used in the quantitative analysis. After all, these assumptions are what give the numbers meaning. The analyst must consider how reasonable revenue growth and expense assumptions are for the project in terms of recent data and other considerations.

[1] In some cases, however, particularly for micro- or small enterprises, such statements may not be available. In these instances, the analyst may use previous loan data and peer group analysis complemented by an assessment of the specific strengths and weaknesses of the borrower in question. In the absence of audited financial statements, however, it may not be possible to perform a risk assessment of the activity. Likewise, it is also less likely that the USAID intervention will produce a sustainable effect if it does not address questions related to information asymmetry between lender or investors and borrowers. While the DCA tool can improve problems of information asymmetry between creditors and debtor groups, and is in fact designed to do so, some instances will require upfront technical and/or grant assistance.

Generally speaking, the assessment should first examine the core assumptions that underpin growth or contraction of relevant variables (price, sales, cost, etc.) and compare these assumptions to audited historical figures. If revenues are projected to increase, for example, the analyst should examine factors such as market demand, price levels, competition, etc. The analyst should perform a brief review of each of the key variables (e.g., prices, input costs, scalability, competition, regulation). When questions arise, the analyst should provide additional information. For example, if revenues are projected to increase and operating costs are predicted to remain fairly constant, the borrower will need to justify how it would achieve these efficiencies. Where possible, quantitative information should be used when assessing the assumptions underpinning the activity; however, it should be noted that qualitative assessments are often adequate. For example, if several reputable economic forecasters estimate strong growth in the sector in question, providing this information is sufficient.

Other significant fluctuations in balance sheet and income statement line items should be identified. Again, the FVA should ensure that the projections are "reasonable" and internally consistent; e.g., a ten-fold increase of fixed assets on the balance sheet during a two-year period in the absence of a concurrent increase in depreciation-expenses on the income statement raises questions about the accuracy of the forecast.

OPERATING CASH FLOW COMPONENTS

Net revenue
- Operating expenditures
- Interest expense

= Free cash flow

\+ Increases in accounts payable
- Increases in accounts receivable and inventories
- Capital expenditures required to offset depreciation

= Net free cash flow

- Short-term senior debt and current maturities of senior long-term debt

= Surplus or deficit

- **Step 2 – Project Free Cash Flows.** Once the assumptions underpinning the projections have been vetted, cash flow projections for the project over the life of the DCA assistance can be prepared. These projections should focus on free cash flow (FCF) from operations, and should be denominated in the local currency unless the loan guarantee covers dollar debts. They should also be in nominal terms, or include the local inflation rate (or the dollar inflation rate if being denominated in dollars).

Denominate all cash flows in local currency unless the guarantee covers US dollar debts.

The cash flows of the project need to consider the full impact of the new project on the overall cash flows of the borrower. In other words, they need to represent all **incremental cash flows** to the borrower, for both revenues and costs, associated with undertaking the new activity. For example, if an expansion of an MFI is to be undertaken by opening a new office, some revenues at the new office might actually be siphoned off from established offices; the project cash flows must only consider the truly new revenues.

FCF is typically net revenues minus operating expenditures and interest expense. Operating expenses comprise cost of goods sold, selling and general administrative expenses, and taxes, but particularly exclude depreciation (since it is not a cash flow). Net FCF further adjusts for changes in working capital and capital expenditures required to maintain the firm's projected productive capacity. Hence, the analyst must carefully consider the project's working capital requirements. Working capital is essentially current assets (accounts receivable, inventory) less current liabilities (short-term debt, accounts payable). During periods of high growth, working capital cash flows are frequently negative – current assets increase significantly in comparison to current liabilities. Higher inventories and receivables represent cash outflows, while an additional short-term loan or account payable represents a cash inflow. In other words, as working capital increases, cash is used. A shortfall in cash may lead to a default regardless of the ultimate profitability of the activity. The capital expenditures required to maintain productive capacity essentially offset annual depreciation. This figure should not include cash flow from investing or financing activities (except for those expenditures necessary to maintain or meet the project's projected productive capacity -- i.e., the loan or bond proceeds). The net FCF projections should then be compared to total debt repayment associated with short-term debt and current maturities of long-term debt on a period by period basis.

- **Step 3 – Conduct Sensitivity Analysis.** The sensitivity of the cash flows to changes in key variables, such as price, sales, costs, interest rates, etc. should be tested and any significant findings presented. This step is typically useful in uncovering a "worst-case scenario" and a "best-case scenario" to supplement the average or expected scenario.

- **Step 4 – Discount Future Cash Flows and Calculate the Internal Rate of Return:** Lastly, the projected, future cash flows should be discounted to a present value using an appropriate "discount rate" or "cost of funds". In addition, the projected cash flows should determine the internal rate of return for the project. The discount rate section below provides more information on determining the appropriate discount rate. This rate should be validated with the participating financial institution and/or other local banks.

Special Considerations for Project Finance: The term "project finance" refers to the raising of funds to finance a capital investment project that is separate and apart from an existing entity. Generally, project finance is limited to large-scale infrastructure projects because of the complexity and cost of structuring a project finance deal. The FVA of project finance is focused exclusively on the ability of the project activity to repay its debt obligations based solely on forecasted project cash flows, independent of whether it is a private or public sector entity. Conservative EBITDA (earnings before interest, taxes, depreciation, and amortization) cash flow projections must be sufficient to service all debt, provide for working capital, pay operating expenses, and still provide an adequate cushion for contingencies.

Special Considerations for Municipalities: For municipal borrowers, the FVA will follow the steps described above with special consideration for credit repayment through "general obligation" funds (taxes and intra-government transfers) versus project-specific funds. First, the repayment history of the municipality should be examined to ensure that there is a positive track record by the municipality to repay its sovereign and non-sovereign debts. The projections collected from the municipality should be assessed with comparisons to its historical financial reports. Stability of central government transfers should also be evaluated in these forecasts. In addition, the ability of the municipality to generate and utilize its own tax and non-tax revenues as well as "unrestricted funds" that are not limited to specific programs will provide insights in the entity's ability to re-pay liabilities. Lastly, administrative and operating budgets and expenditures should be reviewed to assess cost control measures. Much of this information will also be critical for the risk assessment of the project.

Special Considerations for Grant Funding: Certain borrowers -- such as private voluntary organizations (PVOs), non-government organizations (NGOs), and microfinance institutions (MFIs) – receive part of their revenues as grant funds. Under these circumstances, the financial viability analysis must carefully consider the role of grant funding in the new project. Grants associated with the initial investments – such as purchase of real estate or equipment or for other start-up costs – may generally be included in the cash flows of the project insofar as such grants are already secured. These are often known as equity donations, as they contribute to shareholder equity in the balance sheet. However, the project must be subsequently operationally sustainable without ongoing grant funding in order to demonstrate enough financial viability to qualify for a DCA loan guarantee. Uncommitted grant funding associated with operating expenses – such as unrestricted annual donations – should therefore not be included in the cash flows of the project, as such donations are typically volatile and often distort the orientation of the project away from market and competitive analysis.

Multiple Borrowers

For a loan portfolio guarantee supporting many different projects, where the focus of the activity is on the general increase in access to credit for the sector, FVA should be focused on the lender. However, this analysis, as mentioned before, should briefly cover macroeconomic trends, growth estimates, specific challenges, regulatory environment, management capacity (from a macro perspective), specific strengths or competitive advantages, general creditworthiness, etc. found in the borrower sector. The FVA should thus provide the CRB with an overview of the trends affecting potential borrowers and their prospects for growth. While it is not necessary to produce cash flow projections for specific borrowers in this case, Missions should provide the CRB with an example or two of these borrowers' cash flows and/or debt repayments.

a) FVA Part II – Activity Viability for the Lender

Activity viability for the lender is principally designed to ensure that a loan or lease portfolio guarantee will be applied to loan or lease activities that are profitable for the lender.

The lender viability analysis follows the same principles as the borrower viability analysis. Begin by (1) analyzing the assumptions that underpin the activity, then (2) model the projected cash flows and changes in working capital, (3) evaluate the sensitivity of the project to changes in key variables, and finally (4) discount the cash flows to determine profitability. The Office of Development Credit has developed cash flow model templates for lenders. Please contact EGAT/DC can provide a template for an appropriate model.

Here are some of the key inputs that should be evaluated and modeled for the purposes of determining the viability of the lending activity.

Definition of Inputs	Notes
Credit "Terms & Conditions" data Loan amount, Coverage percentage, Term of guarantee, Commitment fee percentage and Utilization fee percentage.	All of this information is presented in **Attachment VI: Legal Terms and Conditions** of the DCA Action Memorandum.
Sub-loan Maturity (Loan Portfolio Guarantees [LPGs] only)	The financial institution should verify the term of its typical loan or line-of-credit for the targeted borrower set in order to accurately estimate loan repayment schedules.
Cost of Funds Please see the following section on discount rates.	Average interest rates for deposits, loans and other liabilities should be collected during interviews with the senior management of the financial institution. Next, the weightings (percent of total value) of these debt components should be multiplied by the interest rates and then totaled to calculate a weighted average. This estimated *cost of funds* should be validated with senior management because data on the balance sheet may often not reflect the true current condition of a bank's financial costs.
Client Loan Rate The estimated annual interest rate charged to the borrower(s) identified for this DCA activity.	Gather during interviews with senior management (preferably a chief loan officer) of the financial institution. This should be validated by discussions with a central bank entity and with the potential borrower(s).
Anticipated Defaults The amount of loan principal and interest repayments that are not expected to be repaid.	Anticipated defaults should be based on a current default rate of loans in the targeted sector multiplied by the estimated principal repayments. An alternative measure from recent audited financial statements for the institution as a whole is the **Loan Loss Ratio**: Loan write-offs or losses/ Average gross loan portfolio. This provides an indication of the volume of loan losses in a period relative to the average outstanding portfolio. This ratio, however, does not take into account the targeted borrower(s), which may vary in default patterns from the overall portfolio.
Interest Expenses The additional interest-related costs for the financial institution based on the level of DCA guaranteed loan(s).	Interest expenses are calculated by multiplying the Cost of Funds by the outstanding loan principal amounts.
Tax Rates The tax rates applicable to interest income on the portfolio, and applicable to the deductibility of expenses (especially the cost of funds).	Interest income to the financial institution is generally subject to the local corporate income tax. Similarly, operating expenses are usually deductible from corporate income taxes at the same rate, although this should be verified during interviews with senior management. In particular, deductibility of the cost of funds should be specifically determined.
Overhead Expenses The additional administrative (indirect) costs associated with using the DCA guarantee.	To estimate these costs, start with the most recent Income Statement and calculate the ratio of general & administrative expenses as a percent of the average loan portfolio. This ratio should then be considered on a marginal basis because the additional loans guaranteed by DCA will not necessarily require a 1:1 increase in overhead costs.

c) *FVA Part III – Discount Rates*

With the forecasted cash flows as a basis, the Mission or Bureau should calculate two indicators to complete a Financial Viability Analysis: the Net Present Value (NPV) and the Internal Rate of Return (IRR).

	Net Present Value (NPV): DCA projects must demonstrate a positive NPV, which is the present value of all cash outflows (investments) and inflows (returns) of a project at a given rate of return known as the discount rate. Since the streams of expenditures and receipts occur over a period of time, they are discounted to account for the "time value of money",[4] using the cost of funds to the borrowing or lending entity. When conducting a NPV analysis, the selection criterion is to accept DCA activities with a NPV greater than zero.
	Internal Rate of Return (IRR): Another measure of financial viability is the IRR. IRR is the rate of return or discount rate at which the present value of an investment in a project is zero. When this IRR exceeds the cost of funds, the project is deemed to be an attractive investment. The IRR is somewhat less useful than the NPV calculation, as it is influenced by the profile of cash flows. In particular, IRR cannot be used for paths of cash flows that change sign (negative to positive or vice versa) more than once.

There are many issues to consider in determining the appropriate discount rate to use for calculating NPV. One is whether the discount rate is in local currency or dollars. When cash flows have been denominated in local currency, the discount rate must be a local currency rate. When cash flows have been denominated in dollars, which should be the case when the loan guarantee covers dollar debts, the discount rate must be a dollar rate. In both circumstances, data should be in nominal terms – which include inflation – since cash flows are also expressed in nominal terms.

Whether analyzing the borrower or the lender, the preferred discount rate is the required rate of return on equity given the level of leverage provided by the debt. This is because the projected cash flows in the FVA use available information on the structure of the debt and include interest expenses and principal repayments as cash outflows. With the impact of debt already taken into account in the cash flows, the remaining cash flows (either positive or negative) represent the return to the equity holders. As a result, the remaining cash flows are to be discounted by the required rate of return on equity for the level of leverage provided by the debt.

The required rate of return on equity is difficult to calculate. Using historical financial statements, however, the required rate of return may be approximated by the historical rate of return on equity (ROE). This is calculated by taking the earnings available to the shareholders (i.e., net of interest and taxes) and dividing by the value of equity. Furthermore, the value of equity should be the market value of equity rather than the historical value, which is easily available for publicly traded firms but not for privately held firms. The ROE should be averaged over several years in order to remove year-to-year volatility and move closer to a sustainable market equilibrium. Finally, the calculated ROE must be critically scrutinized to assure its credibility. For example, it must be higher than the interest rate on the firm's debt, as returns to equity must be higher than returns to debt. (For financial institutions, it must be higher than the

4 The basic premise of the "time value of money" is that a dollar today is worth more than a dollar tomorrow due to the interest earned on today's dollar.

cost of funds.) It must also be sufficiently higher to compensate for the additional risks associated with equity, although the magnitude of such compensation is unknown.

It is also worth noting that using the historical ROE as the required return on equity presumes that the new project faces risks similar to those on already existing projects of the same firm. If the project presents wholly different risks than those presented by the borrower's existing business, it is necessary to adjust for this risk by either adding a premium or subtracting a discount. If possible, use financial information for companies that are engaged in the projected type of business.

Similarly, the required rate of return on equity will also depend on the firm's leverage; the more highly leveraged a company, the higher the risk to equity holders and, thus, the higher the required return to equity. If the new project is roughly similar to existing projects with respect to leverage, then the calculated ROE might adequately capture the required rate of return to equity. However, if the new project significantly raises or lowers leverage of the firm, the required rate of return is somewhat higher or lower and the analyst should attempt to incorporate this change in this analysis.

Since the required return on equity is difficult to calculate, some conceptual approaches are useful. The required rate of return on equity must be higher than the interest rate on debt. For financial institutions, it must be higher than the cost of funds. Hence, the simplest discount rate to use is the weighted average interest rate on debt, or, for financial institutions, the cost of funds calculated as the weighted average interest rate for deposits, loans, debt, and other liabilities. Using the weighted interest rate as the discount rate will produce a liberal estimate of the NPV, which must be positive in order for the debt to be fully serviced. This liberal estimate might be satisfactory, as it would indicate that the lenders would be compensated through their senior claims on the project even when shareholders are only minimally compensated. However, the project or activity is truly financially viable only when returns to equity can be sustained at market rates. More conservative estimates of the NPV are thus appropriate, and can be obtained by adding several percentage points to the interest rate on debt. This premium above the interest rate on debt may range from two or three points to nine or ten points, depending on the risk of the project vis-à-vis the existing business and its leverage. The analyst is urged to consider several different discount rates within this range as a way of performing sensitivity analysis on the calculated NPV.

d) FVA Part IV – Guidance for Financial Viability Analysis

Analysts should recognize that this manual is not comprehensive, as FVAs depend on the exact characteristics of the project or activity being studied. If the Mission or Bureau needs assistance with the FVA, it should contact the EGAT/DC PD team. This will most likely be necessary in the case of municipal, project, or bond financing.

Regardless of the level of EGAT/DC support, the Mission will lead efforts to gather information commonly required for DCA supported projects. In the case of a project-specific DCA structure, required inputs for the Financial Viability Analysis will include:

- Project start-up costs
- Future income generated by the project
- Estimated operating and maintenance costs
- Local interest rates (debt servicing costs), tax expenses, etc.

As stated previously, for a portfolio guarantee, illustrative examples of a few borrowers or notional cash flows will be necessary to demonstrate a model for how the debt will be repaid. This model should contain data inputs as just listed for project-specific structures.

If the borrower is an existing organization, the Mission should collect audited financial statements from the last three years, as well as any forecasts the entity has prepared for the near term future. These documents should include:

- Balance Sheet (assets, liabilities and equity components)
- Income Statement (revenues, operating expenses, financing expenses, net income)
- Cash Flow Statement (cash flows from operations, from investing, and from financing)
- Sources and Uses of Funds.
- Detailed estimates of variables such as costs, prices, sales volume, etc.

Similar information about the lender needs to be collected in order to perform the lender viability analysis. These documents should include:

- Balance Sheet (assets, liabilities and equity components)
- Income Statement (revenues, operating expenses, financing expenses, net income)
- Cash Flow Statement (cash flows from operations, from investing, and from financing)
- The inputs detailed in the table under Lender Viability above.

EGAT/DC has developed spreadsheet templates and samples for use in preparing financial viability analyses of loan/bond guarantees and loan/lease portfolio guarantees, which should substantially simplify the execution of the analysis. The EGAT/DC PD team will make these materials available to Missions or contractors as required.

With the appropriate documents and data fully compiled for both the borrower and the lender, EGAT/DC can provide additional guidance.

6. **Fee Justification**

The EGAT/DC PD team should use the following template for the Fees Justification section of the Action Package and **adjust it accordingly** to reflect the specific characteristics of the guarantee. Any deviations from this justification must comply with ADS 249. In addition, per OMB A-129 guidelines (Sec.II.3), EGAT/DC PM team will annually review the fee structure of DCA guarantees as part of the subsidy re-estimate process.[5] This review will be discussed, documented and filed as part of the November or December Portfolio Review Meetings.

[5] OMB A-129 Circular also states that fees "should be set at levels that minimize default and other subsidy costs while supporting the achievement of the program's policy objectives. Unless inconsistent with program purposes, riskier borrowers should be charged more than those who pose less risk." (Sec II.3)

Proposed Fees for this Activity:
Origination Fee: X% *of the guaranteed portion of the authorized amount*

Utilization Fee: X% *of the guaranteed portion of the outstanding principal balance* per annum

Justification
The fees are consistent with program purposes and were set in consultation with the lending institution so as to maximize utilization of the guarantee facility and not hinder financial viability of the projects.

Since the USAID fees will contribute to the borrower's overall cost of capital and thus the financial viability of the projects, special consideration was given when determining the fee structure. Every effort was made to consult with both the lending institution to ensure that the fee structure would not impede the financial viability of the projects or the utilization of the guarantee facility. The proposed fee structure is essential to accomplish several objectives:

- establish a high rate of utilization for the facility,
- maximize the number of end-borrowers who may benefit from the guarantee,
- ensure that the activity is profitable and capable of demonstrating viability to the market; and, and
- does not put undue stress on the partners USAID is trying to assist.

The proposed fee structure for this guarantee conforms to the guidance set forth in ADS 249.3.4

7. Legal Terms and Conditions

The USAID Office of General Counsel (GC) from Washington or through one of its Regional Legal Advisors should draft, review and approve the guarantee agreement's "term sheet". The Mission or the EGAT/DC PD team will ensure adequate GC involvement in this process. The following is an example term sheet for a loan portfolio guarantee.

THE GUARANTEE. To induce the Guaranteed Party to make "Qualifying Loans" to "Qualifying Borrowers" for "Qualifying Projects," as defined below, the Parties agree to the following terms:

1. **Maximum Authorized Portfolio Amount:** The aggregate principal amount of all Qualifying Loans covered under this Agreement at any one time shall not exceed the local currency equivalent of [numerical words] U.S. Dollars [US$x million].

2. **Maximum Cumulative Disbursements:** The maximum cumulative amount of all loan disbursements made under Qualifying Loans shall not exceed the local currency equivalent of [numerical words] U.S. Dollars [US$x million]. No loan disbursement shall be eligible for coverage under the Guarantee unless the amount of such disbursement, together with all previous disbursements made under Qualifying Loans, does not exceed the local currency equivalent of [numerical words] U.S. Dollars [US$x million].

3. **USAID Guarantee Percentage:** Fifty (50%) percent of the Guaranteed Party's net losses of principal. (See Section 4.01 of the Standard Terms and Conditions for claim requirements).

4. **Guarantee Ceiling (Maximum USAID Liability):** [numerical words] U.S. Dollars [US$x million].

5. **Final Date for Placing Qualifying Loans under Coverage:** December 31, 2009.

6. **Coverage Expiration Date:** June 30, 2010.

7. **Final Date for Submitting Claims:** Six months after the Coverage Expiration Date, except as set forth in Article IV of the Standard Terms and Conditions attached hereto, provided further that no claims may be submitted in connection with any default on a loan that occurs after the Coverage Expiration Date.

8. **Currency of Qualifying Loans Placed Under Guarantee Coverage:** [insert local currency – include US Dollars if applicable as well].

9. **Currency of Guarantee Payment:** Local currency.

10. **USAID Guarantee Fees:**

10(a). **Origination Fee:** [numerical words] (x.x%) of the guaranteed portion of the authorized amount. [US$xx,xxx].

10(b). **Utilization Fee:** [numerical words] (x.xx%) per annum of the guaranteed portion of principal. This amount is to be calculated by taking the USAID guaranteed portion (50%) of the average of the total ending balances of all Qualified Loans at the end of the two most recent Guarantee Periods and then multiplying such amount by one quarter of one percent (x.xx%) per annum. The fee is payable semi-annually, as billed.

11. **Currency of Fee Payment:** Local currency.

12. **Guarantee Periods:** The first Guarantee Period will commence upon the date of the Agreement and end on September 30, 2003. Subsequent Guarantee Periods will consist of each six-month period, beginning with the six-month period from October 1, 2003 to March 31, 2004, and the final Guarantee Period will commence April 1, 2010 and end on the Coverage Expiration Date.

CRITERIA FOR QUALIFYING LOANS. In addition to the criteria set forth in the Standard Terms and Conditions, Attachment 2, a "Qualifying Loan" is one made to a "Qualifying Borrower" for a "Qualifying Project," each as defined below:

13. **Qualifying Borrowers:** Non-sovereign small and medium-sized hotels and manufacturing firms for productivity improvements that address environmental concerns, reduce environmental impacts and include environmental retrofitting; and small and medium-sized enterprises borrowing money for a variety of needs including business expansion, fixed asset improvement, working capital, and equipment purchase. A Qualifying Borrower includes any Affiliate of that borrower, including parent or subsidiary companies having the same or substantially similar ownership as such borrower. Any question regarding who is a Qualifying Borrower may be resolved in consultation with USAID, and USAID may waive in writing this restriction on loans to Affiliates.

14. **Maximum Cumulative Principal Amount of Qualifying Loans Made To Any One Qualifying Borrower:** The local currency equivalent of Five Hundred Thousand U.S. Dollars [US$500,000], unless otherwise agreed to by USAID in writing.

15. **Qualifying Projects:** Investments designed to encourage growth of Qualifying Borrowers through environmental retrofitting and/or by facilitating business expansion, fixed asset improvement, access to working capital, and equipment purchase.

16. **True Risk Sharing by Guaranteed Party:** To ensure that there will be true risk sharing between USAID and the Guaranteed Party, no Qualifying Loan shall be eligible for coverage under the Agreement if more than fifty percent (50%) of total payments of principal on such Loan is guaranteed by a government or international donor organization, including USAID.

8. Risk Assessment

See Section III for more details. The Action Package includes the full text description of how the EGAT/DC Risk Management (RM) team analyzes the risk associated with the guarantee, summarized quantitatively by the Weighted Average Risk Factor (WARF).

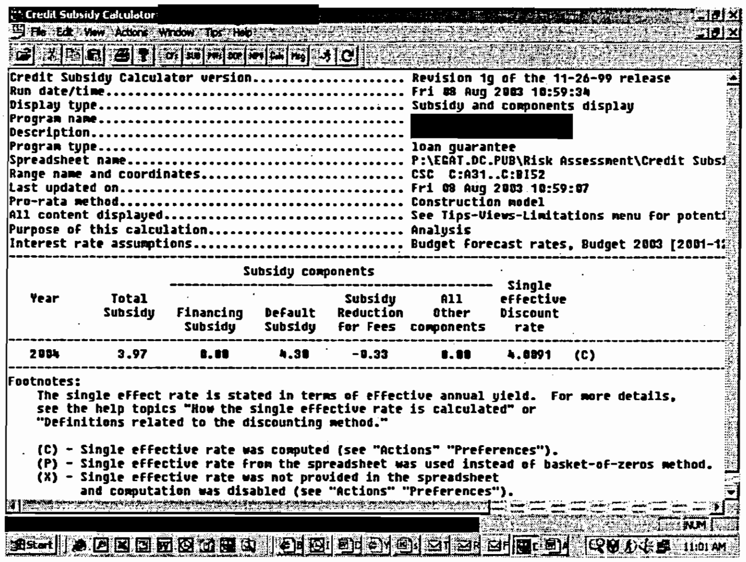
The RM team requires that the Action Package be drafted, with particular emphasis on the financial viability analysis and the term sheet, six weeks prior to the proposed CRB presentation. This allows for sufficient time to conduct the risk assessment, finalize other Action Package sections and distribute to CRB members.

9. Subsidy Cost Calculation

Based on the WARF score and several of the basic terms and conditions of the guarantee (e.g., proposed fees, duration of the guarantee, maximum cumulative disbursements), the EGAT/DC RM team utilizes the Office of Management and Budget (OMB) subsidy risk calculator to calculate the subsidy cost estimate as a percent of the total facility amount, which in the legal agreement's nomenclature is "Maximum Cumulative Disbursements" (MCD). Subsidy, as defined in OMB Circular A-11, is the estimated long-term cost to the government of a loan guarantee, calculated on a net present value basis, excluding administrative costs.

Following is a sample of the output of the OMB Credit Subsidy Calculator. The key fields in this output, which are also summarized in the Project Information Sheet (Attachment 1 of the Action Package), include:

- **Total Subsidy**: This number is expressed as a percent of the MCD. This is equal to the Default Subsidy plus the Subsidy Reduction for Fees.
- **Default Subsidy**: This figure accounts for the estimated cost of defaults (cash outflows) that USAID would pay to the guaranteed party in present value terms. This is also expressed as a percent of MCD. On the Project Information Sheet, Nominal Defaults are presented, which is MCD multiplied by the Default Subsidy rate.
- **Subsidy Reduction for Fees**: This statistic represents the estimate of fees received (cash inflows) from the guaranteed party.



10. **Monitoring Plan**

Monitoring is a coordinated effort between the Mission and the Office of Development Credit (EGAT/DC). Monitoring responsibilities are divided into Development and Financial activities. **The mission is solely responsible for Development Monitoring, while EGAT/DC and the Mission are both responsible for Financial Monitoring.**

DEVELOPMENT MONITORING

The mission must insert a short description on how it plans to monitor the developmental aspects of this activity. This description should include the performance indicators related to Strategic Objective (SO) reporting that this DCA guarantee will support.

Financial Monitoring activities include ensuring that fees are paid, reporting requirements are met, documenting completion of conditions precedent (when applicable), making site-visits, and closing out the facility upon expiration. The EGAT/DC Portfolio Management (PM) team takes primary responsibility for Financial Monitoring. EGAT/DC will create and manage source files for all DCA facilities and be the primary resource for financial reporting on DCA activities within the Agency.

The coordinated effort in monitoring requires that the Mission and EGAT/DC staff work as a team. The Mission establishes and maintains the primary relationship with the partner financial institution (FI), or guaranteed party, and acts as the liaison between the FI and the EGAT/DC in Washington. The liaison role is supported by the EGAT/DC Project Development (PD) team Relationship Manager who, together with the Mission, ensure:

- Frequent contact with the FI's management.
- Timely and compliant submission of required documents and reports.
- Prompt remittance of USAID origination and utilization fee payments from FIs.
- Communication with EGAT/DC Portfolio Management if problems arise or certain conditions change that either reduce or improve the financial stability of the FI or the Borrowers.

This monitoring plan outlines detailed requirements for Financial Monitoring activities. A monitoring plan may include additional monitoring duties if deemed necessary by the Mission Officer(s) responsible for a DCA activity and/or EGAT/DC Relationship Managers. These additional duties may arise due to the particular structure of the guarantee facility, the status of the guaranteed party or the desired development outcomes. The duties detailed below are performed throughout the life of the guarantee facility. Each monitoring activity must be conducted according to this monitoring plan. The EGAT/DC PM team will ensure that the DCA files in Washington are maintained to document all monitoring activities as outlined in this plan.

i. REPORTING

For examples of any of the following reports, templates should be included as an attachment to the legal agreement signed between USAID and the guaranteed party. Prior to signing this agreement, Missions should contact EGAT/DC for examples/templates.

If the DCA activity is a Portable Guarantee (PG), please disregard this Reporting section. The only monitoring activities related to PGs generally include the identification of a qualified lending institution within a specified timeframe.

a) TRANSACTION REPORT (TR)

This section is applicable only to Loan Portfolio Guarantees (LPG). If this DCA guarantee is not a LPG, skip to Section i.b - Qualifying Loan Schedules (QLS).

Most LPGs require the guaranteed party to submit a Transaction Report (TR) for each loan that is placed under guarantee coverage. A TR contains summarized information about the loan and the borrower. In the case of large volume LPGs, TRs can be structured to be extremely concise with only key data required, such as the loan date, borrower name, loan amount, loan purpose. Guaranteed parties submit TRs to the Mission and to EGAT/DC through an Internet-based system – Credit Management System (CMS). CMS will only track the basic information of a TR. If there is specific performance compliance data to check, e.g. asset size of borrower, the Mission may still require that the guaranteed party submit paper or electronic TRs. The frequency of submitting TRs varies. They can be entered in CMS in "real time" as the loans are placed under coverage. Alternatively, Missions may decide to allow banks to submit TR data with QLS information on a semiannual basis.

Typically, DCA legal agreements require that the guaranteed party submit loans for guarantee coverage within ten (10) business days of the loan approval or disbursement date to ensure that previous loans or loan renewals that may already be in arrears are not placed under coverage. Missions and EGAT/DC will review CMS data or paper/electronic TRs if required to ensure that the guaranteed party submits TRs that are compliant with the legal agreement. The loan is assumed to be approved for guarantee coverage unless USAID contacts the guaranteed party to further clarify the proper enrollment of loans under coverage.

Missions should contact their EGAT/DC Relationship Managers with any further questions regarding TRs.

b) QUALIFYING LOAN SCHEDULE (QLS)

Most DCA activities require that the guaranteed party submit a Qualifying Loan Schedule (QLS) every six months.[6] Typically, these QLS reports correspond with guarantee periods from October 1 – March 31, and then April 1 through September 30. The QLS is a status report on all new loans placed under coverage, outstanding loans, and loans taken off coverage during the past six months. The summary level figure of each QLS that is most important from the utilization and USAID risk exposure perspective is the ending principal balance. This is relevant for all guarantee types – LPGs, Loan or Bond Guarantees.

EGAT/DC ensures financial compliance of every QLS and it will report any non-compliance to the Mission for resolution or directly discuss these issues with the guaranteed party if previously agreed to by the Mission. QLS non-compliance may occur frequently if the guaranteed party does not fully understand reporting procedures or the legal agreement terms and conditions. In some cases, several email and/or telephone communications may be necessary to resolve non-compliance issues. Furthermore, a Mission or EGAT/DC site visit to or meeting with the guaranteed party may be required if the issues remain unresolved for more than 60 days.

Once in compliance, the QLS serves as a platform to assess appropriate fees, judge the overall risk exposure, document the overall effectiveness of the program, and/or predict future claims.

For LPGs, QLS reports are certified and submitted via the Internet-based Credit Management System (CMS). For other loan and bond guarantees, the guaranteed party will submit either electronic or paper reports, which typically include updated amortization or repayment schedules, as stipulated in the legal agreement. EGAT/DC will ensure those reports are properly

[6] The current standard for Loan and Bond Guarantee reporting requirements are annual, corresponding with the amortization or repayment of the loan/bond.

entered into CMS for management reporting and utilization fee billing purposes. Missions, guaranteed parties, and EGAT/DC will have simultaneous access to CMS to view data and to identify either compliant or non-compliant issues.

ii. FEES

Each DCA activity requires that the guaranteed party remit payment of two types of fees. As stated above, it is the responsibility of the Mission and the EGAT/DC PD Relationship Manager with support from the PM team to ensure timely and accurate payment of fees.

a) Origination Fee – One time fee paid upfront. The guaranteed party typically has thirty (30) days to pay this fee as instructed in the legal agreement. A bill will not be submitted to the Mission or to the guaranteed party. Payment must be made as instructed in the legal agreement. See legal agreement for further information. In regards to the majority of PGs, the identified borrower(s) will pay the origination fee as stipulated in its commitment letter, which serves as the obligating document for this type of guarantee.

b) Utilization Fee – Annual fee that is typically paid every six months.[7] The fee is based on an average outstanding principal balance during a semiannual period. This is typically calculated by averaging the ending principal balance of the current and previous QLS reports submitted by the guaranteed party. Once QLS report balances in CMS are confirmed as compliant by EGAT/DC, EGAT/DC will contact the FM/LM contractor to ensure a bill, a "Notice of Payment Due" (NPD), is sent to the guaranteed party with the total amount to be paid. The guaranteed party has thirty (30) days to pay the utilization fee after it receives the NPD. See legal agreement for further information. In regards to PGs, the commitment letter will not entail any utilization fees, which would be paid by the eventual guaranteed party that provides a loan to the borrower. Also, for Bond Guarantees, utilization fees are typically paid upfront in one lump sum at the time of bond disbursement. This fee is calculated as a net present value of future fees based on forecasted outstanding amounts during the Bond Guarantee term.

iii. ANNUAL DATA QUESTIONNAIRE (ADQ)

Through CMS, EGAT/DC will request that guaranteed parties complete an ADQ by June 30 every year. CMS will generate emails to the key contacts of all guaranteed parties on or around June 1 to request that they complete the ADQ before the end of the month.

The purpose of this questionnaire is to obtain further quantitative and qualitative measures of the impact of DCA guarantees. Examples of the questions asked in the ADQ are:

- Percentage of loan(s) disbursed in target sectors(s).
- Aggregate number of employees at the businesses with guaranteed loan(s).

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7 In the cases of Loan Guarantees with annual reporting based on its amortization schedule, fees may be billed annually.

- Examples if the DCA guarantee allowed the guaranteed party to lower collateral requirements to approve the loan.
- Example of a "success story" of the tangible benefits realized by one of the borrowers who productively utilized funds from a DCA guaranteed transaction.

The guaranteed party is requested to use actual data to complete the ADQ, but estimates are acceptable. ADQ guidance in CMS will recommend that the guaranteed party spend no more than 30 minutes on the ADQ to ensure that this request is not overly burdensome.

iv. CLAIMS

The following list highlights how DCA claims are processed:

- Guaranteed party submits claim(s) for defaulted loan(s) to the Mission and the EGAT/DC PM team.
- EGAT/DC PM team reviews claim for compliance and prepares paperwork for claim approval. Any necessary correspondence with guaranteed party will be cleared by the respective Mission Officer responsible for the DCA activity and the EGAT/DC Relationship Manager.
- EGAT/DC PM team arranges for clearances by the Mission Officer and Relationship Manager prior to submitting to EGAT/DC Director for approval.
- Once approved, EGAT/DC PM team commits and obligates funds from the DCA Financing Account via the Phoenix accounting system.[8] If insufficient funds have been apportioned in the financing account, the EGAT/DC PM team will request an additional apportionment from OMB. This apportionment is in addition to the apportionment request of financing account funds at the start of the fiscal year to cover estimated claims during the year, which is completed with support from the Bureau of Policy and Program Coordination (PPC) Credit Budget Officer and the Office of Financial Management/Loan Management Division (FM/LM). If the financing account still cannot cover the pending claim after complete subsidy outlay/disbursement from the program account, EGAT/DC will arrange for a Treasury borrowing with the assistance of PPC and FM/LM.
- Upon obligation of the claim amount to be paid, the PM team then notifies FM/LM to instruct the Mission Controller to pay the claim.
- The Mission Controller then makes the claim payment, and obtains reimbursement through FM/LM via the Intra-governmental Payment and Collection (IPAC) system.
- EGAT/DC PM team follows up with email/phone contact to Mission Controller to confirm that claim payment has been made available to the guaranteed party.
- FM/LM notifies the EGAT/DC PM team when evidence of the Controller's transaction has been received. EGAT/DC PM team may then need to adjust the obligation amount due to exchange rate differences.

[8] When a DCA guarantee is initially established, the subsidy funds are transferred to the DCA Program Account. As the guarantee is utilized, the subsidy is disbursed proportionally to the DCA Financing Account, where fee payments from guarantee parties are also applied. The combination of subsidy and fees for guarantees obligated within the same fiscal year is the source of funds for claim payments to guaranteed parties.

v. RECOVERIES

The EGAT/DC PM team (with potential field support from the Mission Officer responsible for the DCA activity in case of late responses) will send out annual letters by the first week of June of each year to all FIs that have received a claim payment from USAID.

The letter, signed by the EGAT/DC Director or EGAT/DC PD Relationship Managers, will request that the FI submit a Schedule of Net Recoveries (see template below) by June 30 that identifies all claim payments made to a FI and requests updated data and certification on post-claim recoveries received, if any, by the FI on these defaulted loans.

SCHEDULE OF NET RECOVERIES

<Bank Name>
<Loan Portfolio Guarantee Number XXX>
< as of DATE >

Defaulted Loan/ Borrowers Name	Date of Qualifying loan	Date of Claim payment	Amount of Claim in USD	Recoveries Received as of <DATE>	Amount of Recoveries Collected by Bank	Date of Recoveries	Amount of Recoveries due to USAID	Expected Date Recoveries to be remitted to USAID

* To be completed by USAID
* To be completed by the financial institution

vi. MISSION SITE VISITS AND EGAT/DC BIENNIAL REVIEWS

Based on OMB Circular A-129 guidance, Mission Officer(s) responsible for a DCA activity are required to conduct and report on site visits to the guaranteed party, while the EGAT/DC PM team must conduct biennial reviews of the guarantee. Structures and guidelines for these visits and reviews are provided in the following two tables. Due to the similar nature of the reports described below, the EGAT/DC PM team will coordinate its biennial review with appropriate Mission staff.

Mission Site Visit	
Frequency:	Annually from date agreement is signed, particularly for guarantees with substantial loan volume, signs of deterioration in guaranteed loan(s), high default rates.
Responsible Entity:	Mission Officer responsible for the DCA activity or designee
Responsibilities:	Meet with partner Financial Institution management, establish status of project and determine compliance and performance issues.
Report Outline:	**Preparation**: Summary of telephone/email communication with PM team prior to site visit to understand unresolved monitoring and compliance issues and to review the most current utilization data. **Unresolved Issues**: Discussion of issues from Section I with FI and clarification of how issues are to be resolved. **Country Status**: Update on any country-wide issues that the FI believes is affecting its loan portfolio and/or DCA utilization – economic changes, exchange rate fluctuations, legal/political changes. **Bank Status**: Update on current situation with the financial institution being guaranteed – e.g., personnel, policy or strategy changes, bank performance, merger & acquisition activities. **Borrower Site-Visit**: If possible, request at least one visit to a borrower that received a DCA-guaranteed loan. Summary of visit

	should include details of: the loan amount, purpose of the loan, loan term, justification for using the DCA guarantee, how it was repaid, and the resulting benefits for the borrower. **USAID Support**: Discussion with FI if USAID can provide any further guidance or assistance in order to promote utilization of and proper reporting on the guarantee. **Conclusion:** Summary of follow-up action items
Delivery of report:	Mission Officer will send completed report via email to EGAT/DC PM team within 30 days of the anniversary of guarantee and EGAT/DC PM team will review the report and ensure that it is appropriately filed. In lieu of this report, the Mission Officer will send EGAT/DC an email to justify that the visit was not necessary. This email will also be filed accordingly.

EGAT/DC Biennial Review	
Minimal Frequency:	Biennially (once every two years) from date agreement is signed or coordinated with a country visit for other purposes
Responsible Entity:	EGAT/DC PM team (with support from Relationship Manager) or designee. If a Mission or its contractor prefers to be responsible for the biennial review, EGAT/DC PM team will review and provide feedback on the biennial report as outlined below.
Responsibilities:	To produce the following report at a minimum of once every two years for a DCA guarantee.
Report Outline: <u>Note</u>: Since the Biennial Report is similar to the Mission On-site Visit Report, EGAT/DC will coordinate its Biennial Review with the Mission to ensure that the FI is not overburdened with similar questions from two different USAID entities.	**Pre-Review Information Gathering**: Review of files to ensure files are current. Analyze recent reporting, fee and claim information to identify any issues that require follow-up with the FI. Data to be summarized and analyzed are: utilization ratios, fees billed and paid, claims net of recoveries as a percent of subsidy + fees, and reporting timeliness. **Unresolved Issues**: Discussion of issues from Section I with FI and clarification of how issues are to be resolved. Also, reminder to FI that have received claim payments of requirement to share recoveries. **Country Status**: Update on any country-wide issues that the FI believes is affecting its loan portfolio and/or DCA utilization – economic changes, exchange rate fluctuations, legal/political changes. **Bank Status:** Update on current situation with the financial institution being guaranteed – e.g., personnel, policy or strategy changes, bank performance, merger & acquisition activities. **Borrower Monitoring**: {if on-site} request to see credit files at the FI on a random selection of at least two borrowers. If possible, request at least one visit to a borrower that received a DCA-guaranteed loan. Summary of visit should include details of: the loan amount, purpose of the loan, the loan term, justification for using the DCA guarantee, how it was repaid, and the resulting benefits for the borrower. **EGAT/DC Support:** Discussion with FI and Mission if EGAT/DC can provide any further guidance or assistance in order to promote utilization of and proper reporting on the guarantee. Conclusion: Summary of follow-up action items
Delivery of report:	EGAT/DC PM team will review this report and ensure that it is appropriately filed. If this report is part of trip report conducted by an EGAT/DC staff member, it will be copied and placed in the appropriate DCA file.

vii. AUDITS

When a guaranteed party submits a claim for payment, the EGAT/DC PM team will monitor the level of claims against the following three criteria:

NOMINAL CHECK	Do cumulative paid and pending claims exceed the equivalent of US$25,000?
PORTFOLIO CHECK	Do cumulative paid and pending claims (converted to total loan values) exceed 10% of Cumulative Utilization?
SUBSIDY CHECK	Are cumulative paid and pending claims as a percent of "subsidy plus fees received" above 50%?

Although this three-tiered criteria checklist is primarily applicable to LPGs, which may receive a series of claim payment requests from the guaranteed party, the same guidelines should be utilized for other forms of DCA guarantees. Data related to these three criteria will be included in the summary page provided in the claim package developed by the EGAT/DC PM team. If at least two out of the three criteria result in positive answers, the EGAT/DC PM team will convene to discuss the possibility of an internal review of the guaranteed party's TRs and QLSs. The PM team will then coordinate next steps with the respective Relationship Manager from the EGAT/DC PD team. The Mission will be contacted as necessary, and additional documentation may be requested from the guaranteed party. The PM team, with guidance from the PD team and the Mission, may request a site visit to inspect the credit files of the guaranteed party.

In the event irregularities are found during the EGAT/DC PM team desk or on-site review, an audit should be conducted by an experienced, independent auditor. The EGAT/DC Risk Management (RM) team will coordinate the planning and review of this auditor's performance. The RM team will also conduct this audit with appropriate Mission guidance. Results of this audit will be disseminated between the PM team and the RM team as well as the Relationship Manager to decide on next steps with this DCA guarantee.

The guaranteed party will be required to repay any amounts deemed to have been paid based on disallowed transactions (e.g., unqualified borrowers). If the guaranteed party is judged to have committed fraud, provided erroneous information, or is perceived as unable to carry out the activities and responsibilities of the guarantee, the USAID Office of General Counsel may advise to terminate the agreement following consultations with the Mission and relevant EGAT/DC staff.

viii. BUDGET

- One (1) US Direct Hire SO Team Leader (or Officer responsible for the DCA activity) monitoring implementation of the DCA agreement: x% of time, $x,xxx annually for each year during which loans may be placed under coverage. This is based on an annual salary of $xx,xxx and a benefits package of $xx,xxx.
- One (1) FSN Project Management Specialist: x% of time, $x,xxx per year for each year during which loans may be placed under coverage. This is based on an annual salary and benefits of xx,xxx.

- One (1) FSN in the Financial Management Office: x% of time, $x,xxx per year for each year during which loans may be placed under coverage. This is based on an annual salary and benefits of $xx,xxx.
- Travel costs to monitor the program overall and conduct random audits of DCA loans, xx site visits per year, all trips out of (Mission location), $x,xxx for each year during which loans may be placed under coverage.

Total Annual Cost for Mission: $xx,xxx per year estimate for xx years (does not include EGAT/DC travel costs).

USAID/W EGAT/DC travel to COUNTRY: $x,xxx per trip, 1 trip for every two years is $x,xxx per year. Estimated staff time costs for EGAT/DC to monitor this DCA guarantee are:

- EGAT/DC PD and RM team: x% of time, $x,xxx annually for each year during which loans may be placed under coverage. This is based on an average salary of EGAT/DC personnel of $xx,xxx and a benefits package of $xx,xxx.
- EGAT/DC PM monitoring contractors: $x,xxx annually based on ongoing contract.

ix. ACCOUNTING CODES

Mission Controllers should utilize the following accounting numbering structure to assist in clearly tracking initial subsidies, modifications, reports, claims and fees: **XXX-DCA-XX-XX-XXX-XXX.** Properly including this code along with the name of the guaranteed party on all relevant documents, such as the original obligation, QLS reports and claim payments will ensure that there is a clear audit trail for accounting purposes. Samples can be provided by the PM team if further clarification is required.

This guarantee numbering should be structured as follows:

XXX-DCA-xx-xx-xxx-xxx	3-digit country code
xxx-**DCA**-xx-xx-xxx-xxx	3-digit-loan type (DCA)
xxx-DCA-**XX**-xx-xxx-xxx	2-digit for fiscal year
xxx-DCA-xx-**XX**-xxx-xxx	2-digit : S1= Initial Subsidy, M1 = 1st Modification, M2, etc.
xxx-DCA-xx-xx-**XXX**-xxx	2/3-digit type of Guarantee: LG=Loan Guar, LPG=Loan Portable Guarantee, PG=Portable Guar, BG=Bond Guarantee
xxx-DCA-xx-xx-xxx-**XXX**	3-digit loan number = a unique guarantee identifier that is the sequential number of DCA guarantees in a particular country, i.e. 001 for the first guarantee in a country, 002 for the second, etc.
xxx-DCA-xx-xx-xxx-xxx-**XX**	2-digits (used only when obligating funds to clearly identify claims paid)

D. Action Package for Multiple Guarantees and Re-Approvals

If a Mission prepares an Action Package that encompasses multiple guarantees, several of the attachments can be consolidated and presented together – Action Memorandum, Activity Description, EVA, FVA, Fees Justification, Legal Terms and Conditions, and the Monitoring Plan. However, the Action Package must present Project Information Sheets, Risk Assessments and Subsidy Calculations separately for each guarantee.

In the case of a CRB re-approval of an existing facility, perhaps if a project is approved but not obligated prior to the end of the fiscal year, or if project was approved and material events have come to pass prior to obligation, the Action Package would require a new Action Memorandum, Project Information Sheet, and a revised Risk Assessment and Subsidy calculation if warranted. The original Action Package would also be attached for reference.

E. CRB Presentation and CFO Approval

Once the risk assessment sections are finalized for the Action Package, the EGAT/DC RM team submits the Action Package to OMB for review. Two weeks thereafter, the PM team distributes the Action Package to all EGAT/DC and CRB members for review, including any comments or changes from OMB. This distribution should occur one to two weeks prior to the CRB meeting.

The PM team will review the Action Package with particular attention to the Monitoring Plan. Members of the PD team who were not involved in the development of this particular project will review the project with particular emphasis on the economic and financial viability analysis sections. Internal feedback from EGAT/DC should be provided to the PD team member prior to the CRB meeting. This PD team member, in consultation with the Mission, will incorporate these comments into the Action Package before CRB review.

F. Guarantee Agreement (Legal)

Office of General Counsel (GC) maintains templates for guarantee agreements to be utilized by Regional Legal Advisors (RLAs). If the RLA considers a deviation from the template agreement, the RLA should discuss it with GC staff and the PD Relationship Manager prior to finalizing negotiations with the guaranteed party. These discussions may be necessary to ensure that the deviation will not contradict ADS guidance or federal credit program legislation nor inhibit monitoring activities.

Missions are encouraged to engage their RLA in DCA project development as soon as the Concept Paper is drafted and reviewed to ensure adequate lead time to prepare and negotiate the legal agreement. This will avoid unnecessary delays when the legal agreement is expected to be signed after the subsidy funds are committed and available for obligation as described in the subsequent section of this manual.

G. Funds Obligation Process

The EGAT/DC PM team will serve as a liaison and guide the process of obligating subsidy funds for a DCA guarantee, especially with regards to other USAID/Washington offices (e.g., PPC, LPA) and other external agencies, such as OMB. However, the EGAT PD team member responsible for the project will maintain responsibility for the steps in this process that concern the Mission and Regional Bureau Program Office.

1. EGAT/DC provides a copy of the Action Package signed by the CFO to the Mission SO Team Leader and to the Mission and/or Regional Controller concerned. The signed Action Memorandum is the basis for subsequently obligating the subsidy amount when the Commitment, or Guarantee Agreement, (obligating document) is finalized and signed.
2. Mission prepares the Congressional Notification (CN), which indicates the subsidy amount of unobligated program funding to be reduced for transfer to DCA funds as well as a

description of the DCA activity. Mission sends the CN to Regional Bureau and EGAT/DC for review. Once approved, the Bureau forwards it to the Office of Legislative and Public Affairs (LPA) for final approval and submission to Congress.

> **NOTE** –In order to expedite the process, the CN should be drafted and presented to the Bureau for clearance at the time the Action Package is presented to the CRB. This is particularly encouraged late in the fiscal year given the Congressional summer recess and the concern to have approved DCA activities obligated prior to the end of the fiscal year. It is not necessary to wait for CRB/CFO approval, unless there is reasonable doubt that the CN would not clear, or that CRB/CFO approval will not be forthcoming. If the final subsidy has not yet been calculated, the EGAT/DC RM team can provide a conservative estimate of subsidy cost prior to completion of the DCA risk assessment, and there would be no need to re-notify if the CN over-notifies the subsidy amount to be transferred to DCA funds.

3. Upon completion of the 15-day CN review period without objection from Congress, the CN expires and Bureau notifies CN approval to Mission and EGAT/DC.
4. Mission SO Team and/or Controller initiates subsidy transfer process in cooperation with the Regional Bureau Budget Office to transfer back to the Bureau the amount of Mission program funds sufficient to cover subsidy.

> **NOTE** – Step 4 can be initiated as soon as the final subsidy for the DCA activity is calculated without waiting for CRB/CFO approval or CN clearance. In this event, steps 5 through 12 can take place sooner, and will ensure that funds are available to the Mission to obligate upon clearance of the CN and CRB/CFO approval.

5. Regional Bureau Budget Office in turn returns Mission program funds to PPC/B/RA.
6. Bureau drafts and PPC/B sends apportionment letter to OMB requesting transfer of program funds to the DCA funds with a copy sent to M/FM/CAR/FCGL ("Funds Control") Office.
7. M/FM/CAR/FCGL finalizes SF-132 (Apportionment/Reapportionment Schedule) and submits to OMB for approval.
8. OMB approves SF-132 and returns to M/FM/CAR/FCGL.
9. FM/CAR/FCGL prepares 1151 ("Non-expenditure Transfer of Funds"), and notifies PPC/B/RA of reapportionment of DCA funds and availability of funds in the DCA Program Account in Phoenix Financial System.
10. PPC/RA/PA allots DCA funds amount in Phoenix to Bureaus.
11. Bureau allows DCA funds (in Phoenix) out to the Mission, confirming the allowance to the Mission by email.

> **NOTE** – If the DCA guarantee is Bureau-funded and managed, the Bureau will hold the DCA funds for subsequent obligation in Phoenix when obligating DCA legal documents are signed.

12. Mission Controller reserves/commits the DCA funds in the Mission Accounting System (MACs) based on copy of the DCA subsidy Action Memo approved and signed by the CRB/CFO, and certifies availability of the DCA funds for obligation.
13. Mission obligates DCA funds after commitment letter or guarantee agreement signed, based on the approved DCA subsidy Action Package.
14. Mission Controller enters funds obligation details (funds cite, obligation date, etc.) on the cover sheet of the signed obligating legal agreement and promptly sends copy of signed legal agreement (by scan or fax) to EGAT/DC, which in turn provides signed copies to the FM/LM contractor (USAID Financial Agent) and FM/LM to set up appropriate servicing and accounting records.
15. EGAT/DC establishes and maintains file for each DCA guarantee obligated (see Filing Procedures in Section IV of this Manual).

III. Risk Assessment

Risk assessments are analyses performed on lenders, borrowers, and the structure of a credit activity that determine the creditworthiness of participating institutions and develop an expected cost of the risk. A risk assessment is the process of determining the probability of adverse outcomes, which most likely result in negative cash flows. The higher the level of risk equates to a higher probability of negative cash flows and a resulting loss to the U.S. Government. Risk assessments result in the determination of an ordinal risk score, which is then used to determine the expected cost to USAID of an activity.

A risk assessment involves analyzing all financial aspects of a credit activity to determine the probability of default. Usually, this will include the creditworthiness of the borrower and lender (when applicable), macro- and microeconomic country-related issues, the structure of the credit transaction, and the presence of risk-mitigating factors. In all instances, the structure and location of the activity will have direct bearing on the level of underlying risk.

In order to project the future cash outflows required by the loan guarantees, the EGAT/DC RM team must perform a credit risk assessment on the country, borrower, lender, and structure of the credit activity designed to evaluate the creditworthiness of a particular USAID loan guarantee. It is conducted by the RM team in EGAT/DC, ensuring an independent analysis of project risk related to the possible outflow of U.S. Government funds, and is undertaken in accordance with the procedures established in the *USAID Development Credit Risk Assessment Handbook.* Although EGAT/DC performs the risk assessment, the Mission or Bureau and participating institutions support the risk assessment with information research and collection. Although the required information depends on the credit activity, it typically includes: audited financial statement for three to five years, business/strategic planning documents, CVs of key personnel, financial projections, human resources information, policies/procedures, and organization charts. EGAT/DC conducts the risk assessment once the project development phase is completed, and typically requires a site visit.

The risk assessment utilizes a 10-point scale in which "1" represents low risk and "10" represents high risk. The scale is applied to quantify separate risk scores for the country, the borrower, the lender, and the structure of the transaction, and then a weighted-average risk factor (WARF) score is calculated. This WARF score is used to determine the expected default rates (net of recoveries) on the loans. Higher risk scores are naturally associated with higher default rates. The default rates themselves are provided annually by the OMB based on estimates of defaults on all U.S. Government loan guarantees, and depend on both the WARF score and the maturity (or year in which the repayment of principal is to occur). Once the default rates are determined, they are applied to the specific DCA guarantee being considered to obtain the expected default payments, which represent the future cash outflows required by the loan guarantee commitment. The present value of these default payments is the subsidy cost of the loan guarantee.

Formulating the WARF Score is the main objective of the credit risk assessment, as it is the critical element in projecting future cash outflows. An overview of the factors assessed, along with their assigned weights, is provided in the following table. The country risk score always comprises 40% of the overall WARF score. Weights on the borrower risk and the lender risk may vary in two ways: first, standard weights depend on the particular product being used (as shown in the table), and second, risk analysts have some flexibility to alter the standard weights within the specified ranges. Transaction risk has a standard weight of 20% of the overall WARF score for loan guarantees (but may vary from 10% to 30%), and has a standard weight of 10% for direct loans (with a range from 5% to 20%).

Risk Factors Assessed in the DC Risk Assessment and Standard Weights

Factor and Weight	Overview
Country Risk 40%	This is determined by a rating system used throughout the U.S. Government, the Inter-Agency Country Risk Assessment System (ICRAS). The ICRAS non-sovereign risk score represents the overall risk of doing business in the country. This score takes into account such factors as the general business climate, banking and legal systems, and foreign exchange conditions.
Borrower Risk Loan Guarantee: 25% Loan or Lease Portfolio Guarantee: 15% Bond Guarantee: 30%	This measures the ability of the borrower to repay the lender. If the borrower is rated by a private rating agency, the rating is converted to a numerical equivalent on the USAID risk scale. If the borrower is not rated, the risk analyst examines a variety of information. Risk components include both borrower-specific factors, such as financial strength and management quality, and external factors, such as industry, market and regulatory conditions. The factors considered vary according to the type of borrower, which may be a private sector business, a financial institution, a leasing company, a microfinance institution, an investment fund, a private voluntary organization, or a utility or sub-national government infrastructure entity. For example, a private sector business is scored based on six factors: industry/market characteristics, the regulatory environment, its legal organization and corporate governance, management, financial assessment, and the nature of the new activity. Other types of borrowers have factors tailored to the nature of their business, as developed in the *USAID Development Credit Risk Assessment Handbook*.
Lender Risk Loan Guarantee: 15% Loan or Lease Portfolio Guarantee: 25% Bond Guarantee: 10%	This assesses the lending institution's experience and ability to originate and monitor loans. If the lender is rated by a private rating agency, the rating is converted to a numerical equivalent on the USAID risk scale. If the lender is an unrated commercial banking institution, USAID utilizes the widely accepted "CAMELS" analysis to evaluate the bank's Capital adequacy, Asset quality, Management, Earnings, Liquidity, and Sensitivity to market risk. Other types of lenders, which may include microfinance institutions, investment funds, and private voluntary organizations, have factors tailored to the nature of their business, as developed in the *USAID Development Credit Risk Assessment Handbook*.
Transaction Risk 20%	This incorporates the legal and financial structure of the activity including: (1) local currency considerations, (2) the legal structure of the guarantee or loan, including protective covenants, and (3) the financial structure of the activity, including the percent guaranteed or USAID's investment (if direct loan) relative to the total funding for the activity. The standard weight on the local currency consideration is 50%, and the benchmark score is the ICRAS score. The standard weight on the legal structure of the guarantee is 25%, and the benchmark is also the ICRAS score. The standard weight on the financial structure of the guarantee is 25%, and the benchmark is either the borrower risk score or the lender risk score, depending on the DCA product being used.

The expected cost to the U.S. Government of a credit transaction is called a ***subsidy***. For all credit activities, USAID sets aside this subsidy in a holding account for the duration of a specific deal (similar to a specific loan loss reserve). The subsidy is the net present value of all credit-related cash outflows and inflows to the U.S. Government. The subsidy concept was introduced in the Federal Credit Reform Act (FCRA) of 1990. Determination of the subsidy includes (i) assessing the risk of the credit transaction, (ii) estimating scheduled cash flows, and (iii) adjusting the expected cash flows based on credit risk. The system allows the Government to price the expected liability of credit transactions under Federal credit programs.

The primary benefit of the subsidy concept over traditional risk measures is the price determination effect. Traditional risk measures provide ordinal scores of credit risk without providing expected liability estimates. The FCRA subsidy system provides an explicit liability estimate for credit based on risk and cash flow timing. This helps differentiate the price between two transactions with comparable risk scores but substantially different cash flow timing, or vice versa.

In summary, there are two distinct parts to the USAID risk model: risk assessment and subsidy calculation. Risk assessment includes factors that determine the probability of default based on creditworthiness. Calculating the subsidy involves determining the expected cost to the U.S. Government of cash flow implications of risk and financial structure. Complete guidelines to conduct a DCA risk assessment are described in the *USAID Development Credit Risk Assessment Handbook*. For those requesting more information on risk assessments, contact the RM team leader.

IV. Project Monitoring

A. Overview

Following the obligation of a DCA guarantee, the EGAT/DC Portfolio Management (PM) team will be primarily responsible for monitoring activities of DCA guarantees with support from PD Relationship Managers and Mission Officers. The scope of monitoring activities has been clearly identified in the Monitoring Plan, which is included in the Action Package submitted to the CRB (see Section II.C.10).

B. Filing Procedures

The PM Team contractor will be responsible, based on documents provided by EGAT/DC PM team, to create and maintain the DCA project files organized as follows:

- **Yellow** (Project Development) – Action Package, Congressional Notification, audited financial statements, other project development materials, correspondence.
- **Red** (Legal) – Contact information, legal agreement, amendments to legal agreement, commitment letter, evidence of "conditions precedent", correspondence.
- **Blue** (Financial) – QLS reports, origination fee payment, utilization fee payments, exception reports, QLS late reports notifications, correspondence.
- **Green** (Monitoring) – Mission site-visit reports, biennial reviews, references to trip reports, calling plan schedule and general correspondence.

The PM Team contractor will create these four files for each project within two weeks of receiving the signed legal document. At that time, the PM Team contractor will file all available project development information, including the CN, in the yellow folder from the appropriate PD Team Relationship Manager. The PD team will provide signed copies of the guarantee agreement to the PM Team contractor to be filed in the red folder

The PM Team contractor will maintain the contents of these files on an ongoing basis, filing financial data as they are finalized/received (blue) and any monitoring updates/reviews as they occur (green). EGAT/DC PM team will ensure the monitoring information, as well as any legal amendments/ issues, are provided to the PM Team contractor in a timely manner.

The EGAT/DC PD and PM Team Leader will conduct a spot-check audit of these files on a semiannual basis – by January 31 and June 30 of each year. Reports from these audits will be disseminated at the February and July portfolio review meetings.

C. Initial Mission/Partner contact

Within three weeks of signing the legal agreement, the EGAT/DC PM team will send a letter or email to the guaranteed party with the following content:

- Formal welcome
- Introduction to PM team
- Reminder of "conditions precedent" requirements
- Reminder of origination fee payment with instructions on how to pay the fee
- Explanation of reporting (CMS tutorial in the case of LPGs)

This communiqué will be first sent to the key Mission contact and the PD Relationship Manager for review. EGAT/DC PM will offer to send this on the Mission's behalf or provide the Mission with the option to send it directly to the guaranteed party. EGAT/DC should also encourage the Mission to share this letter/email with its RLA.

D. Monitoring Database – CMS and Reports

The Credit Management System (CMS) is an Internet-based database system for monitoring MSED and DCA guarantees. The primary function of CMS is to collect and monitor data related to guarantees – qualifying loan Transaction Reports, semiannual reports on outstanding balances (i.e. the contingent liability to USAID), fees billed and paid, claims submitted and paid, etc. CMS also provides useful management reports on utilization, cash flows and reporting timeliness.

The CMS web site is hosted externally at https://admin.cms.usaid.org, which requires a username and password. Access can be granted to EGAT/DC, Mission, FM/LM and guaranteed party personnel by the EGAT/DC PM team. For complete guidance on how to use the Credit Management System, see the *CMS Users Guide for USAID Personnel.* There is also a separate Users Guide for financial institutions that describes how a guaranteed party enters its semiannual reports in CMS.

Procedures and responsibilities for CMS are summarized in the following table.

Function	Procedures
Initial CMS data entry (new guarantee agreement)	• Upon filing a new DCA agreement, the PM Team contractor initializes the guarantee in CMS. • EGAT/DC PM team contacts the EGAT/DC PD team Relationship Manager and/or Mission to determine if and how CMS training with guaranteed financial institution (FI) can proceed.
Reporting and Fees	• Data entry of Transaction Reports and Qualifying Loan Schedules (QLS) – FI or the PM Team contractor. Typically these reports are due semiannually by April 30 and October 31. • The PM Team contractor with EGAT/DC PM support will resolve all outstanding issues in order to finalize QLS data ("approved" status in CMS). • Once finalized, the PM Team contractor will contact The FM/LM contractor in order to develop and send Notice of Payments Due (NPD) for utilization fee payment. • The PM Team contractor will review and then file the NPD after it has been faxed to the FI. • Riggs and the PM Team contractor will provide monthly reports on past-due fee payments. EGAT/DC PM and PD team members will assist with possible guidance from Mission contacts if payments are more than 30 days past due.
Claims	• EGAT/DC PM will forward claim reimbursement requests from FIs to the PM Team contractor for data entry into CMS as "pending claims". • The PM Team contractor will then follow Section IV.F of this Manual to assess and process claims. • Once paid, the PM Team contractor will change the status of claims from "pending" to "paid".

One additional reporting procedure that is included in CMS is the Annual Data Questionnaire (ADQ). The purpose of the ADQ is to collect quantitative and qualitative data on the impact of USAID guarantees once a year from guaranteed FIs. CMS will send out automatic emails on June 1 to request that FIs complete this brief survey.

E. Utilization Targets -- LPGs

For any of the following circumstances, the EGAT/DC PM team, in coordination with the PD team, should contact the respective Mission to discuss how to address the lack of utilization of the guarantee with the financial institution.

- If no loan(s) have been placed under guarantee coverage by the end of first reporting period (typically six months after signing the guarantee agreement).

- If Cumulative Utilization as reported in CMS, which represents the aggregate amount of loans placed under guarantee coverage, is less than 10% of Maximum Cumulative Disbursements by the second reporting period (typically one year after the signing of the guarantee agreement).
- If Cumulative Utilization as reported in CMS, which represents the aggregate amount of loans placed under guarantee coverage, is less than 50% of Maximum Cumulative Disbursements by the midpoint of the guarantee's term.

The EGAT/DC PM team will work with its contractor to ensure these targets are verified on a semiannual basis (following the subsidy outlay process).

F. Utilization Fees Billings and Collections

- The PM Team contractor verifies Qualifying Loan Schedule (QLS) March 31 and September 30 reports as finalized and in compliance with the legal agreement and informs the FM/LM contractor via phone and/or email that the Notice of Payment Due (NPD) can be produced based on CMS data.
- The FM/LM contractor uses CMS ending balance data for each semiannual period to draft the NPD. The PM Team contractor verifies the draft NPD before it is faxed to the guaranteed party.
- The guaranteed party has thirty days to pay the utilization fee upon receipt of the NPD. Through Riggs delinquency reports and CMS reports, the EGAT/DC PM team will monitor overdue fees and involve the PD team if necessary. Payment instructions are as follows:

US Dollar payments
may be wired electronically to Treasury:
ABA#: 021030004, Federal Reserve Bank of NY
To the credit of US Treasury, Type Code: 15 (for banks outside the US)
Acct#: ALC72000001, Ref:: USAID a/c 72X4266
Include the MACS obligation number used for the DCA guarantee at the Mission. This is obtainable from the Mission Controller; e.g., "ref: USAID a/c 72X4266, DCA-201-A01-001". M/FM/LM and Riggs Bank monitor wire activity through Treasury's CashLink system. Riggs Bank will credit the fee payments to the appropriate loan guarantee.

Local currency payments
should be made by the Guaranteed Party via check to the USAID Controller or Cashier, referencing, e.g., "USAID a/c 72X4266, DCA-201-A01-001". The USAID Controller will deposit the funds with the USDO, which will translate and post the funds in US Dollars to the DCA financing account (72X4266). The Mission Controller will provide a copy of the receipt to M/FM/LM. M/FM/LM will notify Riggs Bank of the collection, so that they may credit it to the appropriate loan guarantee.

- Once payment is received and confirmed in Washington by either the EGAT/DC PM team, the PM Team contractor or Riggs, the payment information will be entered in the CMS database by the PM Team contractor or Riggs.

G. Claims

1. Assessment and Payment of Claims

The EGAT/DC PM team oversees all the steps involved to ensure that the claim is paid in a timely manner. Once the claim is received in Washington, and if there are no outstanding unresolved issues regarding the claim, previous reporting, and fees, this process should take no more than thirty (30) days.

Once the Mission receives a claim request from a guaranteed party, the Mission should forward the claim request to the EGAT/DC PM team. The PM Team contractor reviews the claim and performs the following tasks:

- Reconcile principal of claim amount with latest QLS balance.
- Ensure dates fall according to procedures
- Ensure the loan is in default or exhibits lack of repayment in CMS for at least 90 days.
- Review any write-off evidence provided
- Attach copy of latest QLS
- Attach original Transaction Report (if any)
- Check status of utilization fee payments. If outstanding fees, notify bank and wait for verification of payment before proceeding
- Check status of QLS entry and current reporting practices. Resolve any outstanding issues.
- Compile excel spreadsheet, which provides a borrower list of claims and totals the amount of the claim in local currency and US dollars.
- Draft cover memo and financial summary of guarantee to Relationship Manager. This memo will include the three calculations described in the subsequent section, "Trigger for Claim Audits".

Thereafter, the following steps occur:

- EGAT/DC PM team will review claim for compliance and prepare paperwork for claim approval. Any necessary correspondence with guaranteed party will be cleared by the respective EGAT/DC Relationship Manager and the Mission Officer responsible for the DCA activity.
- EGAT/DC PM team arranges for clearances by Mission Officer, Relationship Manager prior to submitting to EGAT/DC Director for approval.
- Once approved, EGAT/DC PM team will commit and obligate funds from the appropriate DCA Financing Account via Phoenix.
- Upon obligation of the claim amount to be paid, the PM team will then notify FM/LM to instruct the Mission Controller to pay the claim.
- The Mission Controller then makes the claim payment in the currency of the guaranteed transaction, and obtains reimbursement through FM/LM via the IPAC system.
- EGAT/DC PM team follows up with email/phone contact to Mission Controller to confirm that claim payment will be made available to guaranteed party.
- FM/LM notifies the EGAT/DC PM team when evidence of the Controller's transaction has been received.

- The PM Team contractor ensures that relevant transaction is removed from coverage in CMS and EGAT/DC PM team updates the claim log, which is used to prepare next year's apportionment request.

This process varies slightly for MSED claims. The primary difference is that Mission clearance is unnecessary. The roles of FM/LM, Mission Controllers do not vary much in the claims process for MSED and DCA claims. Similarly, the PM Team contractor role as it relates to preparing a claims package and CMS data entry does not vary between the two credit authorities.

2. Trigger for Claim Audits

See Monitoring Plan (Sec.III.C.10.vii) for details.

H. Recoveries

See Monitoring Plan (Sec.III.C.10.v) for further details. At the May Portfolio Review meeting, the EGAT/DC PM team will remind the PM Team contractor to send out these letters by the first week of June each year. Templates for these letters are stored on the EGAT/DC shared drive.

I. Portfolio Review Meetings

The EGAT/DC PM team will organize and facilitate and the PD team will attend monthly meetings to review pertinent portfolio issues. At a minimum, these meetings will include:

- Review of outstanding follow-up items identified from the previous meeting
- Distribution of updated reports from CMS
- Update on pending and paid claims
- Discussion of portfolio-wide and region-specific issues
- Establish time/date for the next meeting

The PM Team contractor will be responsible for creating meeting minutes and then filing them, along with any handouts from the meeting, in a binder clearly marked in the EGAT/DC office.

J. Relationship Manager Calling Plans

EGAT/DC PD Relationship Managers have created calling plans that represent a planned schedule of phone calls to guaranteed parties and/or the relevant Mission Officer to better understand the current status of the guarantee and to maintain contact with guaranteed parties. These calls are predominantly either semiannual or annual, as decided by the Relationship Manager. The Relationship Manager can substitute in-country meetings or email updates from Mission Officers for the phone calls that cover the necessary topics as outlined below.

Prior to placing a call, the Relationship Manager or Mission designee should request an update from the Portfolio Management team to ascertain if there are unresolved monitoring and compliance issues and to review the most current utilization and contact information.

Topics of discussion during the phone call:

Part I: Information Gathering

- Update on the use of the guarantee, including current utilization, new borrowers, and potential claims.
- Update on bank issues, including personnel changes, policy changes, bank performance, and mergers and acquisitions.
- Update on the issues of the country, including exchange rate fluctuations, economic updates, and legal and political changes.
- Update on contact information, including personnel, email addresses, mailing addresses, phone numbers, and fax numbers of the partner financial institution.

Part II: Customer Service

- Is there any assistance or support that USAID could provide to the guaranteed party to further promote the utilization of the guarantee?
- Is the financial institution in need of any special assistance?
- Is there a strong relationship between the partner financial institution and the Mission? What can be done to promote a strong relationship?
- Is there anything that USAID can do to encourage timely and accurate reporting and fee payments?
- Does the partner financial institution have any special concerns or issues?

Part III: Issue Resolution

- Resolve issues with late reporting and/or fee payments.
- Resolve pending compliancy issues with QLS or other types of reporting.
- Resolve issues with low or no utilization.
- Resolve issue with pending claims.
- Make arrangements to gather missing file components.

Part IV: Conclusions

- Remind the partner financial institution of the due date of the next QLS or financial report, fee payment, audited financial statements, and other stipulations of the legal agreement.
- Update the partner financial institution of the Relationship Manager and Mission's contact information.
- Notify the partner financial institution of the date of the next scheduled phone call or visit.

In preparation for the Portfolio Review monthly meetings for March and September of each year, the PM Team contractor will meet with Relationship Managers to update actual contacts made during the last six months. Reports of calls made during the previous six months will be provided at these two Portfolio Review meetings.

K. Biennial Reviews / Trip Reports

Please refer to the Monitoring Plan section of the Action Package (Sec.II.C.10) for the outline of a biennial review, which is the responsibility of the EGAT/DC PM team or designee.

The PM Team contractor will copy a biennial review report that is included in a broader trip report in the appropriate project file. In contrast, the PM Team contractor will only include a reference for other information from a trip report, excluding biennial reviews, relevant to a particular project in the green project files. EGAT/DC administrative support will maintain originals of all EGAT/DC trip reports.

L. Subsidy Outlays

DCA subsidy involves two accounts, the DCA Program Account (a Mission account) and the DCA Financing Account (a USAID/W account). Both accounts are maintained with U.S. Treasury. The DCA Program Account holds the subsidy transferred to the Mission as DCA funds. As a guarantee is utilized, the DCA funds are moved (outlaid) from the DCA Program Account to the DCA Financing Account in proportion to the percentage of the facility utilized.

The EGAT/DC PM team will provide information semiannually by November 30 and May 31 of each year to M/FM/LM in order to properly outlay subsidy amounts from the DCA Program Account to the DCA Financing Account. This information will consist of cumulative utilization data from CMS, which will clearly identify the balances that should be outlaid in the Financing Account.

M/FM/LM initiates the transfer from the DCA Program Account (on the books of the Mission) to the DCA Financing Account (on the books of USAID/W). M/FM/LM prepares a disbursement document (SF1081) for each DCA guarantee and submits them to M/FM/CMP for processing through the Treasury Intra-governmental Payment and Collection (IPAC) system. M/FM/LM advises the Mission Controller to liquidate the obligated DCA funds by reducing the DCA Program Account via the U.S. Treasury IPAC electronic funds transfer process. Through IPAC, the Missions Agency Location Code (ALC) is charged directly. M/FM/LM processes a corresponding collection in Phoenix to the DCA Financing Account. Based on the SF1081 received from M/FM/LM indicating the DCA funds transfer, M/FM/CMP prepares the IPAC/ALC report, which completes the DCA subsidy outlay process. The EGAT/PM team will confirm that M/FM processed the outlays as required via Phoenix by December 15 and June 15 of each year.

This semiannual subsidy outlay process will result in the reduction of the DCA Program Account funds that are reflected in Mission accounting records. Missions may ask EGAT/DC for clarification as they prepare quarterly accruals for the Program Account. If there has been a significant amount of loan(s) placed under guarantee coverage, EGAT/DC PM team will provide the Mission with guidance as to how it should update its accrual estimate. Otherwise, the PM team should advise the Mission to leave the Program Account funds unchanged and wait until the next subsidy outlay.

The following table summarizes key Treasury, Phoenix, and a simplified version of Mission Accounting (MACS) codes for reference purposes. The MACS codes listed are merely Mission interpretations of the Phoenix codes. MACS actually uses a different coding system that includes Budget Plan Codes (BPCs).

Appropriation Title	Treasury Symbol	MACS	Fund Code
DCA Financing Account (no year)	72X4266	LFX-FY	BFY LA-X
DCA Program Account (no year)	72X1264	LAX-FY	
DCA Program Account (FY 01/02)	72 1/2 1264	LA-01/02	2001/02 LA
DCA Program Account (FY 02/07)	72 2/7 1264	LA 02/07	2002/2007 LA
DCA Program Account (FY 03/07)	72 3/7 1264	LA 03/07	2003/2007 LA
DCA Program Account (FY 04/07)	72 4/7 1264	LA 04/07	2004/2007 LA

M. Subsidy Reestimates

1. Overview

The subsidy reestimate process is an annual comparison of prior subsidy estimates for each previously disbursed loan/guarantee cohort; and actual loan/guarantee cash flows and updated assumptions about expected performance of the cohort. Cohorts are grouped by the fiscal year in which the subsidy funds were obligated. It is important to note that neither an upward or downward change in the estimated subsidy cost of a DCA guarantee will impact a Mission's budget.

The subsidy reestimate for each account is a two-part calculation:

1. Update for change in interest/discount rate between time of loan obligation (guarantee commitment) and disbursement ("**interest rate reestimate**")
2. Update for changes in technical/default assumptions (e.g., forecast technical assumptions) ("**technical reestimate**").

Interest Rate Reestimate
The purpose of the interest rate reestimate is to replace the OMB-issued economic assumption Treasury interest rates used at execution or calculation of the original subsidy rate with actual Treasury rates. In doing so, the reestimate recalculates the subsidy estimate based on actual interest rates and as a consequence trues up the subsidy balance in the financing account based on the difference between estimated and actual rates. An interest rate reestimate is required to be calculated after a cohort becomes substantially disbursed, which implies that future disbursements, if any, will be minor in comparison to existing disbursements (modified "use 90 percent" method). An interest rate reestimate is only calculated once for a cohort, following the substantial disbursement of loans under coverage.

Technical Reestimate
The purpose of the technical reestimate is to replace the original estimated cash flows (forecast assumptions used to calculate the original subsidy estimate) with actual cash flow data. For example, for loan guarantees this includes default claim payments, recoveries, fees, interest rates, etc. A technical reestimate will also update estimates of future cash flows based upon recent historical (actual) performance as well as revised assessments of risk. Generally, technical reestimates are first calculated after a cohort has substantially disbursed. For example, for most cohorts, USAID will calculate the first interest and technical reestimates at the same time. Once the first technical reestimate has been performed, a technical reestimate must be calculated after the close of each fiscal year.

Closing reestimates
When USAID no longer has <u>any</u> contingent liability associated with <u>any</u> loan guarantees in a cohort, a closing reestimate for that cohort must be performed. A closing reestimate brings the cohort account to zero (0) by either repaying any residual obligations to Treasury or transferring any residual subsidy to Treasury's general receipts account. No further reestimates are required after a closing reestimate has been performed for a particular cohort.

Outcomes
Upon execution, two outcomes are possible, either:

1. An **upward reestimate** when the subsidy cost is higher than previously estimated; or
2. A **downward reestimate** when the subsidy cost is lower than previously estimated.

If an upward reestimate is required, permanent indefinite authority from the U.S. Treasury is available to cover the upward reestimate amount. If a downward reestimate is required, the downward reestimate amount must be returned to the general fund at Treasury via the downward reestimate receipt account.

The process of executing reestimates begins in July of each year and ends in early December. Reestimates are published each January in the President's budget. For example, the FY06 budget reestimates are completed in 1st quarter of FY05.

The process involves participation from Risk Management, Project Development, Loan Management, and PPC. Each of these participants is responsible for completing their assigned tasks on time and in a manner that reflects the Office's commitment to high quality work product and meeting the Agency's and Federal government's standards.

In addition to performing specific tasks, Portfolio Management leads the reestimate process for the Office of Development Credit. In this role, Portfolio Management manages and coordinates the activities of each of the contributors to the process, liaises with the OMB credit team, and ensures that the reestimates are finalized each year in a timely fashion and in accordance with federal credit regulations.

This process must be completed by EGAT/DC for each of the following accounts, for post-credit reform cohorts only, depending upon utilization:

Israel guarantee financing account	(72 X 4119)
UE guarantee financing account	(72 X 4344)
DCA guarantee financing account	(72 X 4266)
MSED guarantee financing account	(72 X 4343)
MSED direct loan financing account	(72 X 4342)

2. **Process**

The reestimate process is divided into three stages with multiple sub-tasks:

Data collection

Responsibility Deadline

a. ***Portfolio cash flow data collection*** — ***PM Team – Sept. 6***
   i. Collect all cash flow data for all projects in each cohort
      1. Enter data in Cohort Summaries
      2. FY04 data including projections for final 3 months
      3. FY03 data (confirm accuracy of data for final 3 months)

b. ***Financial statement collection*** — ***PD Team – Aug. 2***
   i. Collect financial statement for partner banks and all borrowers
      1. Update in project files

c. ***Risk re-assessment data*** — ***RM Team – Sept. 13***
   i. Reassess risk of each project using updated financial statements and other information (e.g., project performance, ICRAS updates).
      1. Collect data in Cohort Summaries

d. ***Account balance data collection*** — ***RM Team – Sept. 13***
   i. Run account balance queries for each account as of 8/31
      1. Prepare a summary worksheet with relevant data

Reestimate Calculation

e. ***Reestimate cash flow model approval***
   i. Submit revised cash flow model to OMB if necessary[9]
      1. Approval required by September

f. ***Cash flow modeling*** — ***RM Team – Oct. 4***
   i. Model actual and projected cash flows project-by-project for interest rate and technical reestimates
   ii. Enter results into Cohort Summaries

g. ***Subsidy rate calculation*** — ***RM Team – Oct. 4***
   (Int. rate reestimate rate, technical reestimate rate, etc.)
   i. Calculate revised subsidy rates using updated cash flow actuals and projections
   ii. Enter results into Cohort Summaries and calculate rates on a cohort basis

h. ***Reestimate calculation*** — ***PM Team – Oct. 12***
   i. Enter data from Cohort Summaries into appropriate budget utility
      1. Use balances approach for all pre-FY2003 cohorts
      2. Use CCredit tool for all others

[9] After the FY06 budget reestimates, Risk Management does not expect the model to change for the foreseeable future.

Apportionment (after OMB approval of reestimates)

*i. **Submit apportionment to OMB***
*j. **If necessary, issue warrant for permanent and indefinite authority funds***
*k. **Transfer funds to financing account or to reestimate receipts account***

N. Urban Environmental (UE) and Israel credit programs tracking

1. UE/HG Program (formerly the Housing Guaranty Program)

Authority for the UE guarantee program was provided in Sections 221-223 of the Foreign Assistance Act of 1961. Title 22 U.S.C 2181-2183, as amended, established the Housing Guaranty Program to assist developing countries by promoting basic shelter and related services for low-income families. Title 22 U.S.C. authorized the issuance of 100% guarantees to eligible U.S. investors, in accordance with Standard Terms and Conditions set out in a Final Rule (see Federal Register Vol. 53, No. 170, published September 1, 1988). Since inception of this program, UE guarantees have been issued for loans from U.S. lenders totaling more than $2.8 billion supporting more than 200 projects in more than 40 developing countries. Most of these loans are sovereign loans and have terms of 30 years with a 10-year grace period on principal repayment. Electronic information on the loans is maintained by Bloomberg, a securities marketing information facility for the secondary investors market. Appropriations for this program were discontinued after FY2000.

Consistent with the Federal Credit Reform Act (FCRA), there is an annual budget exercise for three accounts: the Program and Financing Accounts for Post-credit Reform UE loans and the Liquidating Account for Pre-Credit Reform UE loans. In November/December of each year the EGAT/DC PM team collects data from FM/LM and the FM/LM contractor, prepares budgets and provides to PPC/B the budgeting information for these UE accounts. PPC/B submits the budgets to OMB. When finalized with OMB, these UE budgets are incorporated into the President's budget presented to Congress in February of each year.

At the beginning of each fiscal year, the EGAT/DC PM team gathers and provides to PPC/B the relevant information to arrange for the annual apportionments for the three UE accounts. Claims (payments by USAID) and recoveries (collections) information is obtained by the EGAT/DC PM team from the FM/LM contractor and FM/LM. The EGAT/DC PM team follows up to insure that these apportionments are processed by PPC/B and FM. The EGAT/DC PM team will duplicate this process during the year if supplemental apportionments are needed due to unforeseen circumstances.

Subsidies for the disbursed Post-Credit Reform UE loans are maintained in the UE Financing Account, which earns interest at Treasury rates. In addition, the semi-annual USAID fees attributable to these loans are paid into the Financing Account.

The FM/LM contractor performs the role of Paying and Transfer Agent (P&TA) for the UE loan portfolio. As such, the FM/LM contractor bills the UE borrowers and receives payments that are paid by the FM/LM contractor to the existing note-holders. The FM/LM contractor pays the semiannual USAID fees received from the borrowers into USAID's account at Treasury. In addition, the FM/LM contractor maintains a register/list of note-holders for the purpose of recording UE note ownership and transfers related to sales and purchase of UE loan notes on the secondary market.

The FM/LM contractor provides reports to the EGAT/DC PM team and FM/LM on the UE portfolio and individual UE loans, which enables the EGAT/DC PM team to track payment performance and contingent liability of the portfolio. The principal reports include UE Control Logs (received two to three times per month), detailed monthly reports of pre-credit reform and post-credit reform UE loans (by country, payment status, etc.).

The standard terms and conditions of the UE program detail the claims procedure. The normal conditions provide that the Investor (note-holder) has up to 12 months after a default to submit an Application for Compensation. USAID shall make the required payment no later than 60 days after the filing Date of Application, unless USAID has cured the default. Notwithstanding the standard terms and conditions, USAID, as a matter of practice, has entered into a UE prompt payment arrangement with the FM/LM contractor, whereby USAID provides monthly advances to Riggs Bank to provide funds to make payments on time on the UE loans expected to default. The EGAT/DC PM team receives and reviews these monthly advance requests from the FM/LM contractor, obtains approval of the EGAT/DC Director, and proceeds to commit and obligate the necessary funds. The EGAT/DC PM team then coordinates the payment of the advances to the FM/LM contractor with the Office of Financial Management/Cash Management and Payments Division (FM/CMP), which notifies the EGAT/DC PM team when the payment has been processed through Treasury to the FM/LM contractor. The FM/LM contractor notifies the EGAT/DC PM team when advances are received. The FM/LM contractor provides to the EGAT/DC PM team a monthly reconciliation of the use of these advances, returning any funds to USAID which are not necessary to make payments to UE note-holders.

Annual subsidy reestimates for disbursed post-credit reform UE loans are performed by the EGAT/DC PM team (see Section IV.L.).

Close-out procedures – Upon expiry and final payment of a UE loan, the FM/LM contractor receives the note(s) from note-holder(s) for cancellation and returns them to the borrower(s). For the few remaining UE loans with unfinished underlying programs, the EGAT/DC PM team will assist Missions, if necessary, to help them close the programmatic aspects of these UE loans.

The EGAT/DC PM team maintains UE loan contract/loan amortization/correspondence working files for each UE loan. These files are used to resolve any problems with Borrowers and note-holders, and answer frequent inquiries from secondary market investors. In addition, the FM/LM contractor maintains master loan contract/amortization files.

2. Special Israel Guarantee Programs

Two Israel guarantee programs, which were set up by special legislation in 1991 and 2003, are managed by U.S. Department of State. The State Department reports annually to the President and Congress on the status of the programs. In addition, based on these reviews, annual authorized loan amounts are subject to Presidential reductions for activities such as building settlements in Palestinian areas. The guaranteed loan portfolios for these two special Israel programs are administered by USAID, and specifically the EGAT/DC PM team with GC.

A $10 billion loan guarantee program was established October 6, 1992 by special legislation (Title VI of Public Law 102-391, and Section 226 was added to Title III of the Foreign Assistance Act of 1961). The program was established for the purpose of resettling emigrants from the former Soviet Union and certain other countries to Israel. Eleven (11) borrowings took place between 1994 and 1998, totaling $9.2 billion after the annual Presidential deductions.

Given the size of each borrowing, the loans were structured in many pieces, including advances and zero coupon bonds. However, the basic structural guideline (on an equivalent NPV basis) was taken from the UE loan structure, i.e. 30-year term and 10-year grace period on principal repayment with interest payable semi-annually. An originally negotiated USAID fee of 4.5% payable by Government of Israel (GOI) was applied to each borrowing and paid to Treasury for USAID as a "subsidy" fee into a Financing Account.

Bank of New York (formerly U.S. Trust Co.) performs the function of Fiscal Agent, with responsibilities to bill/collect payments and provide loan and portfolio reports to USAID (the EGAT/DC PM team and FM/LM) and the FM/LM contractor (under the Agency's outsourcing contract), which in turn provides reports to USAID (the EGAT/DC PM team and FM/LM) for portfolio tracking and accounting purposes.

A separate $9 billion loan guarantee program, to provide financial assistance to Israel's ailing economy, was established in the Emergency Wartime Supplemental Appropriations Act of 2003, as amended (Title I, Public Law 108-11, April 16, 2003). This Act authorized $3 billion of borrowings each year from 2003-05, with any residual to be borrowed by no later than 2006. These annual borrowing authorizations are also subject to the annual Presidential deduction for prohibited Israeli activities. The August 18, 2003 Commitment Agreement between USAID and GOI provides that all but $450 million (30 years) is subject to a loan term of 20 years. The loans are on "bullet" terms, i.e., no principal is due until the 20-year (or 30-year) maturity. Interest is to be paid semi-annually. A subsidy (USAID "fee") payable by GOI is calculated by OMB at the time of each borrowing, and paid to the USAID account at Treasury for the Israel Financing Account. The FM/LM contractor is the Fiscal Agent for this Program, performing the same activities, including reports to USAID (the EGAT/DC PM team and FM/LM) for this loan guarantee program similar to Bank of New York for the $10 billion program.

Similar to the UE program, the EGAT/DC PM team is responsible for annual budgeting and apportionments for the Israel programs by providing budget data on the portfolios to PPC/B for the President's budget and OMB apportionments. The EGAT/DC PM team, with GC, conducts borrowing preparations (approves underwriters, reviews legal documentation, participates in pricing sessions and loan closings, and insures that the USAID fee (subsidy) has been calculated by OMB and is paid to USAID's account with Treasury (Israel Financing Account) prior to permitting the disbursement of the loans.

The FM/LM contractor tracks billing and receipt of payments, and reports portfolio data to the EGAT/DC PM team and FM/LM for accounting purposes. The EGAT/DC PM team monitors the portfolio utilizing these reports.

As in the UE case, the EGAT/DC PM team receives and processes inquiries from Investors and potential secondary market investors. In addition, prospectuses and market pricing information for each Israeli borrowing are posted on the Bloomberg secondary market facility.

Claims procedures are specified in the terms and conditions of the USAID guarantees, and further enumerated in the respective Fiscal Agency agreements. Upon notification by the Fiscal Agent no later than 2:00 p.m. on the day of a default (payment not received by 12:00 noon on payment date), payment of the claim must be paid by USAID within three days.

The EGAT/DC PM team is responsible for producing the annual subsidy reestimates for the two Israel loan guarantee programs (see Section IV.L.). The EGAT/DC PM team also maintains loan guarantee files for each borrowing, as well as correspondence and background files.

Close-out procedures. In accordance with provisions in the Fiscal Agency agreements, notes for loans that have matured and been repaid are cancelled by the Fiscal Agent and returned to the borrower. These repayments will be reflected in the reports to the EGAT/DC PM team and FM/LM submitted by the FM/LM contractor in accordance with the outsourcing contract.

V. Project Close-Out

Six months prior to the expiration of a guarantee, the EGAT/DC PM team, in coordination with the PD team Relationship Manager, will notify the guaranteed party of the facility expiration. The notification will include the date of termination and reference to termination requirements in the standard terms and conditions of the legal agreement. The EGAT/DC PM team will send a copy of this expiration notice to the Mission and to the FM/LM contractor.

A. Final Reports/Fees

The EGAT/DC/Mission will monitor the collection of final reports and fee payments, especially in regards to processing reports and follow-up on the final Notice of Payments Due (NPD) from the FM/LM contractor. The FM/LM contractor will notify the EGAT/DC/Mission after the final utilization fee payment is received.

B. Claim Payments

EGAT/DC and the Mission will process claims in accordance with Guarantee Agreement standards (see Section IV.F), which typically permit the FI to submit claims until six months after expiration of the DCA guarantee. However, loan default and the lender's demand for full repayment from the borrower must have occurred prior to the expiration of the guarantee facility. Following claim payments, the FI is legally obligated to share any recoveries with USAID. The Mission must take the initiative to remind the lenders that they are obliged to share these recoveries. (See previous section, "Post Claim Recoveries Collection – Section III.C.10).

C. Subsidy De-Obligation

To officially de-obligate the subsidy funds committed to a DCA project, the following steps should be executed:

1. After receipt of expiration notice from EGAT/DC (six months before the expiration of the guarantee), the FM/LM contractor updates the Control Log to reflect upcoming termination.

2. Mission decides if it will de-obligate any unused credit subsidy **prior to** the expiration of the guarantee and notifies EGAT/DC.

For more detailed guidance on de-obligations, see Section VI.B.

D. Project Evaluation

Following project close-out, three levels of DCA project evaluation include:

Mission-level: Development Progress
DCA activities are subject to the same evaluation requirements as grant funded activities. At the Mission level, such requirements include, but are not limited to, the Annual Report and Performance Plan.

EGAT/DC-level: Financial Soundness
The financial soundness of the DCA portfolio will be under continuous evaluation using the financial monitoring systems and annual re-estimates outlined in Project Monitoring. In addition, the CRB will review DCA portfolio financial information annually to evaluate the financial soundness of the DCA portfolio and to identify DCA activities that are developing problems that require management attention. The EGAT/DC PM team will submit a report based on this review to the CFO.

PPC-level: Effective Management of Credit Assistance
The USAID Bureau for Policy and Program Coordination (PPC) and its Center for Development Information and Evaluation are responsible for DCA portfolio-wide evaluations. PPC/CDIE will initiate an evaluation of DCA when significant utilization and potential development impact has been achieved.

VI. Project Adjustments

A. Subsidy Modifications

1. Purpose

From time to time, because of changes in programmatic circumstances, EGAT/DC is required to perform modifications to existing agreements, creating the need for new cash flows covering loans or guarantees under its various credit programs. The purpose of this section is to describe the process of doing so and to serve as a resource for information related to these actions.

A modification occurs when a federal government action changes the underlying assumptions used in the baseline estimate of cash flows and changes the estimated subsidy cost. Examples include changes in terms, such as fees and guarantee maturity. Some legal agreement changes may not warrant a subsidy modification if the inherent risk to the guarantee does not change, such as the widening the target group of borrowers. The FCRA (2 USC 661a(9)) defines modification as "any Government action that alters the estimated cost of an outstanding direct loan (or direct loan obligation) or an outstanding loan guarantee (or loan guarantee commitment) from the current estimate of cash flows."

OMB Circular A-11 Sec. 85(n) states that "modifications would not include routine administrative workouts of troubled loans or loans in imminent default." A modification in sense of DCA is meant to be a discretionary alteration of the financial terms/conditions of a guarantee, motivated by programmatic issues.

The same OMB publication also states "modifications do not include additional disbursements to borrowers that increase the amount of an outstanding loan guarantee. These are treated as new loan guarantees in the amount of the additional disbursement."

2. **Process**

This process is managed by the EGAT/DC Portfolio Management Team. The EGAT/DC Risk Management Team is responsible for calculating the subsidy cost of the modification. In general, modification cost is the difference between, 1) the net present value of remaining cash flows *prior* to the modifying action, and 2) the net present value of remaining cash flows *after* the modifying action.

The process of executing modifications may begin at any time during the fiscal year, as required. The process is initiated by the Mission making a formal recommendation for a modification to the EGAT/DC Relationship Manager because conditions have changed. The Relationship Manager accountable for the geographic area reviews the request and if warranted, makes a request, including detailed information on the proposed modification, for Portfolio Management to execute the modification. Portfolio Management then requests that Risk Assessment calculate the subsidy cost of the modification. A modification typically takes 15-30 days to complete (not including the time needed by the mission to de-obligate funds if necessary), depending on the work flow on the Portfolio and Risk Management Teams. After the adjustment, if any, has been determined, the modification must be properly recorded and reported.

Modification cost may be positive, negative or zero. Positive indicates an additional subsidy cost and requires a transfer of funds between the program account and financing account. Negative means a saving is achieved and requires a transfer of funds from the financing account to the negative subsidy receipt account. This budget account is a general fund receipt account that is not earmarked for DCA and is available for appropriation only in the sense that all general fund receipts are available for appropriation (see OMB Circular No. A-11 for more details).

The modification process is divided into several stages with multiple sub-tasks:

- **Stage 1**: Mission requests a modification.
- **Stage 2**: At the request of Portfolio Management, Risk Management makes a determination as to the subsidy cost of the modification.
- **Stage 3**: Request CRB approval of the modification. The Action Package for a modification includes: Action Memorandum, Project Information Sheet with revised terms, Subsidy Calculation and the original Action Package for reference. In the case of a facility increase, which as stated previously is treated as a new guarantee and not a modification, the Action Package should also include a new Action Memorandum, Project Information Sheet, Subsidy Calculation and the original Action Package.
- **Stage 4**: Request apportionment from OMB, if necessary. (An apportionment is required if, 1) the current apportionment does not allow the apportioned resources for

modifications and, 2) the cost of the modification is higher than the amount apportioned, less amounts already obligated. Otherwise, no apportionment is needed.)

- **Stage 5**: Receive an approved apportionment from OMB, if necessary.
- **Stage 6**. Record the obligation.

The process involves participation by the Mission, Project Development, Risk Management, Loan Management, OMB and PPC. Each of these participants is responsible completing their assigned tasks on time and in a manner that reflects the Office's commitment to high quality work product and meeting the Agency's and Federal government's standards.

There is one exception to the process outlined above – pre-FY1992 USAID loan guarantee or direct loans. These credit instruments precede the requirement to calculate a subsidy cost estimate and USAID utilized liquidating accounts to record all related cash flows to and from the Government. For a better understanding of the difference between a liquidating and a financing account, please see the Glossary of Terms. In cases of pre-FY1992 guarantees or loans, EGAT/DC must transfer the new subsidy cost estimate to the financing account. As stated previously, a proposed loan workout arrangement to avoid loan default does not require a subsidy modification for pre-FY1992 guarantees.

Example:
USAID/Bulgaria sought CRB approval of a proposed facility to increase the size of an existing FY2000 DCA to United Bulgarian Bank (UBB) from $6,250,000 to $10,000,000 and to extend the term from 7 to 10 years. Other terms and conditions remain the same. Below is how we would estimate subsidies.

(1) Treat the net $3.75 million increase of the facility as a new DCA guarantee. As such, it will require separate subsidy calculations. This new facility will also require a separate legal agreement with the DCA guaranteed party. Accounting treatment for this increase will be the same as a new facility, i.e., new facility number and new cohort.
(2) Treat the term change in the existing deal (from seven to ten years) as a modification.
(3) Construct pre-modification cash flows incorporating all actual cash flows (fees, disbursements). In other words, pre-modification cash flows are those assumed in the most recently printed budget, i.e, reestimates. The model used for the most recent budget reestimate should be used.
(4) Construct post-modification cash flows. Post-modification cash flows are the original cash flows, adjusted to reflect the extended maturity on the original amount only. Adjust for future disbursements based on best estimates (it is not necessary to follow the standard disbursement schedule). In the Bulgarian case, the same pre-modification cash flows would be used, but the terms extended to ten years. The file should be saved as post-modification.
(5) Discount both pre and post-modification cash flows using the current year's budget assumption interest rates. The difference in subsidy cost (from the two sets of cash flows) that will result from a longer maturity is the positive subsidy associated with the modification. This additional modification cost can be covered by new subsidy or de-obligated subsidy.
(6) EGAT/DC will also need to compute and record the modification adjustment transfer amount on any amounts that have already been disbursed to the financing account.

(7) For a cost increase, record an obligation in the amount of the estimated increase in subsidy cost against budget authority in the program account. Record an outlay in the amount of increase from the program account to the financing account. At the same time, record an equal amount of offsetting collections in the financing account.

(8) For a cost decrease, at the time the modification is made, record an obligation against unobligated balances for the cohort in the financing account. At the same time, record in the financing account an equal disbursement to the negative subsidy receipt account (a Treasury general fund receipt account).

3. Resources

Modifications are a complicated process. All staff involved in the process should familiarize themselves with the details of the process by reading from the following resources. In addition, EGAT/DC PM and RM staff should attend regularly scheduled OMB training sessions on reestimates.

- OMB Circular A-11, Ch. 185, especially Section 185.7 Note: (Ch. 185 now includes former A-34 Section 70)
- Federal Credit Support Page: http://www.whitehouse.gov/omb/credit
- OMB Credit Subsidy Calculator (CSC page) (on the Federal Credit Support page)
- Consolidated Credit Tool and instructions (Utilities Page of the Federal Credit Support page)

4. Modification Responsibilities

Codes: *RM – Risk Management; PM – Portfolio Management; PD – Project Development; PPC – DCA Budget Officer; FM – Financial Management; MS – Mission; OMB – OMB Approval Authority*

Stage	Task	Inputs	Responsibility
Initial	Collect information pertaining to the requested modification and request execution of a modification	Mission	PD
Initial	Establish timeline for completion	PD; PM; RM; PPC	PM
Calculation	Subsidy cost calculation	PM; PD	RM
Calculation	Approval (if necessary, PM prepares memo to CRB requesting approval of the proposed action	RM; PD	PM
Execution	Apportionment	PPC; OMB	PM
Execution	Record obligation and accounting information	PPC	PM

B. Subsidy Deobligations

When a guarantee agreement is co-signed by USAID and the guaranteed party, or a direct borrower or representative, the initial subsidy calculation will be obligated to the DCA Program Account. As the guarantee is utilized by loan(s) placed under guarantee coverage, EGAT/DC PM team and FM/LM ensure that the appropriate levels of this subsidy are transferred from the Program Account to the Financing Account (see Subsidy Outlays section of this manual).

If it is determined that either all or a portion of the subsidy funds in the Program Account will not be used ('outlaid' to the Financing Account in government accounting nomenclature), then the Mission, specifically the Obligating Official, should consider de-obligating the funds. This de-obligation would allow the Mission to use the subsidy funds for another DCA guarantee. The subsidy amount available for de-obligation is the percentage of unutilized disbursement, i.e. (Maximum Cumulative Disbursements [MCD] – Cumulative Disbursements)/MCD multiplied by the original subsidy amount. If this calculation has not changed since the last subsidy outlay, this calculation should be the same as the amount of subsidy remaining in the Program Account.

To begin the de-obligation process, a Mission must adhere to the appropriation timeframe in which the obligation can be de-obligated and reused for other purposes. The table below summarizes this timeframe since DCA transfer authority was made available in FY 1998.

DCA Transfer Authority	Timeframe for initial obligations
• FY 1998	Unlimited ("No Year" funds)
• FY 1999	Use of carryover funds from FY1998
• FY 2000	Unlimited ("No Year" funds)
• FY 2001 - 2002	Two years
• FY 2002 - 2007	Five years
• FY 2003 - 2007	Four years
• FY 2004 - 2007	Three years

The steps involved in de-obligating Program Account funds are as follows:

1. Mission Officer or Chief Technical Officer (CTO) should contact its EGAT/DC PD team Relationship Manager for guidance on this de-obligation process.
2. The RLA or GC will draft a termination or reduction of coverage letter (hereafter "termination letter") to be presented to the guaranteed party following EGAT/DC PD and PM review.
3. Following confirmation that the guaranteed party does not intend to challenge the termination or reduction outlined in this letter, the Mission Officer prepares an action memorandum for Mission Director approval to de-obligate the DCA funds with a copy of the letter to the guaranteed party acknowledging that the guarantee has been terminated or reduced. The Mission will forward a copy of the final termination letter to the EGAT/DC PM team, which will then distribute copies of the termination letter to FM/LM and its contractor for reference purposes for any outstanding collections or payments.
4. Upon Mission Director's approval, the Mission Controller submits the approved memo and the termination letter to the Bureau and de-obligates the funds in the MACs system.

5. If the Mission intends to use the de-obligated funds for a new DCA guarantee, the Mission Officer prepares a memo to the Bureau to re-obligate these funds for another CRB approved DCA guarantee. If no other DCA guarantee is planned, the Mission Officer will de-obligate the funds, returning them to the Bureau and requesting to transfer them back to the original fund. The Bureau is required to arrange with PPC to return 100% of the DCA de-obligated funds to the Mission per the Re-obligation Policy of ADS 621 **only if** the intended use of the funds is another DCA guarantee.
6. If the Mission intends to re-use the funds for another DCA guarantee, the funds will be returned to the mission for re-obligation by the end of the next quarter (see general guidelines below). Following confirmation that the funds are available by the M/CFO, a Congressional Notification will be drafted by the Mission to the Bureau for submission to the Legislative Public Affairs. In conjunction with the CN or upon expiry of the CN (2 weeks) the subsidy amount of the new DCA project will need to be re-apportioned by OMB.
7. Please refer to Steps 6-15 of the Funds Obligation Process of this *Operations Manual* for the steps to re-obligate the funds for a DCA guarantee.

General guidelines applicable to this topic provide additional information to take into consideration during this process:

- De-obligated funds from appropriations of FY2002 and beyond will remain available for an **additional four years** from the date on which the availability of such funds would otherwise have expired. For example, a DCA guarantee is obligated with 2003-2007 appropriated funds on January 23, 2004. On September 30, 2007, the obligated funds are still available for an additional four years, i.e. until September 30, 2011. At this point, based on a general rule (31 USC 1552 (a)), a five-year period would commence which states that an obligation must be disbursed within five years after its period of availability ends. Therefore, any unused or un-disbursed subsidy in the Program Account would be canceled on September 30, 2016.
- De-obligations from pre FY2002 appropriations will remain available without a time limit until they are expended.
- Once a de-obligation is recorded (Step #4-5 from above), the USAID Office of the Chief Financial Officer (M/CFO) will provide each Bureau a report detailing all the funds that were de-obligated during the previous quarter. M/CFO will provide this report before the close of the subsequent quarter. For example, if a Mission deobligates subsidy funds by December 31, 2003, the availability of these funds will be confirmed by M/CFO by March 31, 2004. Furthermore, M/CFO will notify PPC that the apportionment of these funds has been completed and that the funds will be available by the same deadline as this report to each Bureau.
- PPC will then issue allotments to the Bureaus within five working days.
- Bureaus will subsequently issue Mission allowances within five working days.

The "**Reobligation Policy**" document of ADS 621 further describes guidelines specific to DCA subsidy de-obligations:

- Funds that are designated for DCA will be returned in full to the originating Bureau.
- At a minimum, the Bureaus will return 50 percent of these funds to the Mission. However, "to encourage Missions to take advantage of the leveraging that DCA activities

offer, 100 percent of those funds designated for DCA will remain in the DCA account for the de-obligating Mission's use for other DCA projects."

VII. Acronyms

ADQ	Annual Data Questionnaire
ADS	Automated Directives System
CAMELS	Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, (market) Sensitivity
CFO	Chief Financial Officer (within the Management "M" Bureau)
CMS	Credit Management System (https://admin.cms.usaid.org)
CN	Congressional Notification
CRB	Credit Review Board
DCA	Development Credit Authority
EGAT/DC	USAID Office of Development Credit (in the Economic Growth, Agriculture & Trade Bureau)
EVA	Economic Viability Analysis
FCRA	Federal Credit Reform Act (1990)
FI	Financial Institution
FM/CAR	Office of Financial Management / Central Accounting and Reporting Division (in the "M" Bureau)
FM/CMP	Office of Financial Management / Cash Management and Payments Division (in "M" Bureau)
FM/LM	Office of Financial Management / Loan Management Division (in "M" Bureau)
FVA	Financial Viability Analysis
FY	Fiscal Year
GC	USAID Office of General Counsel
ICRAS	Inter-Agency Country Risk Assessment System
IPAC	Intra-governmental Payment and Collection system
IRR	Internal Rate of Return
LG	Loan Guarantee
LPA	USAID Office of Legislative and Public Affairs
LPG	Loan Portfolio Guarantee
MCD	Maximum Cumulative Disbursements
MSED	Micro and Small Enterprise Development program
NPD	Notice of Payment Due (bill for utilization fee)
NPV	Net Present Value
OMB	Office of Management and Budget (White House)
PD	Project Development (EGAT/DC team)
PM	Portfolio Management (EGAT/DC team)
PPC	USAID Bureau of Policy and Program Coordination
QLS	Qualifying Loan Schedule
RLA	Regional Legal Advisor
RM	Risk Assessment (EGAT/DC team)
SO	Strategic Objective
TR	Transaction Report
UE/HG	Urban Environment credit program – also known as Housing Guaranty loans
USAID	United States Agency for International Development
WARF	Weighted Average Risk Factor

VIII. Glossary of Terms

Action Package
The Action Package is the document presented to the CRB for CFO approval of a DCA guarantee. It includes a Memorandum signed by the Mission Director and the CFO. The attachments of various analyses and documents are described in detail in Section II.C of this manual.

Balances Approach Reestimate Calculator (BARC)
The BARC is a budget utility created by OMB to calculate reestimates. The Balances approach can be used for technical reestimates only and is only appropriate for prior year cohorts on which there has already been an interest rate reestimate performed.

Basket-of-zeros discounting
FY2001 and future cohorts are discounted using the basket-of-zeros discounting method. Under this method, each cash flow is discounted using the interest rate on a zero-coupon Treasury security with the same maturity as that cash flow, regardless of the term of the loan. For example, cash flows that would occur exactly at the end of one year are discounted using the interest rate on a Treasury zero that would mature in exactly one year. Cash flows that would occur exactly at the end of five years and one month would be discounted using the interest rate on a Treasury zero that would mature in exactly five years one month. And so on. The basket-of-zeros method, therefore, defines the present value of any collection of future cash flows as the market price of a collection (or "basket") of Treasury zeros that, at maturity, exactly matches the cash flows. Basket-of- zeros cohorts earn and pay financing account interest at the single effective rate; see the description below. FY1992 through FY2000 cohorts are discounted using the similar maturity discounting method, also described below.

Basis Point
Used in the context of interest rates, a basis point is one-hundredth of a percentage point. For example, 50 basis points (bps) = 0.50%.

CAMELS Analysis
A type of credit risk analysis widely accepted by banks and financial institutions to evaluate six traditional factors considered to be most important in the operation of a financial institution – Capital adequacy (C), Asset quality (A), Management (M), Earnings (E), Liquidity (L) and Sensitivity (S).

Cash flow data
Calculated the subsidy reestimates requires collecting a variety of cash flow data related to each project and cohort, including but not limited to:

- Disbursements
- Claims
- Fee earnings
- Subsidy outlays
- Subsidy modifications

- Previous reestimates
- Recoveries
- Lost fees

These data are entered into Cohort Summaries during the first stage of the reestimates.

Cohort
A cohort is comprised of all loan guarantees of a program obligated in a particular fiscal year. A cohort should include all active guarantees or guarantees under which there were cash flows (e.g., fee payments or loan disbursements) prior to those guarantees becoming inactive. These rules apply even if the loan guarantees are disbursed in subsequent years. A Cohort includes all transactions which were obligated in a FY, and are active or disbursed some amount before becoming inactive.

Cohort Summary
Cohort summaries are cohort-specific excel-based databases of information pertaining to particular active cohorts.

Consolidated Credit Tool (CCredit Tool)
The CCredit Tool is a budget utility created by OMB to calculate reestimates. The CCredit Tool should be used for all cohorts on which there has not yet been an interest rate reestimate performed.

Claims
Claim payments represent the FI's request to execute the guarantee for a defaulted loan. Claims represent 50% of the FI's net loss as certified by either a bad debt expense or a loan loss provision for that defaulted loan.

Credit Review Board (CRB)
The CRB includes representatives from EGAT/DC, General Counsel, regional bureaus, PPC and FM/LM. The CRB recommends the subsidy cost of each proposed DCA activity for the USAID CFO's approval. The CRB also recommends policies and procedures designed to assure the financial soundness of all USAID credit activities.

Discount rates
Discount rates are the collection of interest rates that are used to calculate the present value of the cash flows that are estimated over a period of years. The discount rates are based on the Treasury rates in the economic assumptions for the budget year. For loans made, guaranteed, or modified in FY2001 and thereafter, the cash flow estimated for each year (or other time period) is discounted using the interest rate on a marketable zero-coupon Treasury security with the same maturity from the date of disbursement as that cash flow. The discount rate assumptions for the budget will be provided by OMB in a file for use with the OMB Credit Subsidy Calculator. The rate at which interest will be paid on the amounts borrowed or held as an uninvested balance by a financing account for a particular cohort is a weighted average discount rate derived from this collection of interest rates. Electronic spreadsheets are available from OMB to calculate interest income or expense for financing accounts.

Downward Reestimate
A downward reestimate occurs when the reestimated subsidy rate is lower than the original subsidy rate, or most recent reestimated rate, and indicates that the financing account has excess

subsidy. In the event of a downward reestimate, USAID's financing account transfers the excess to a receipt account.

Economic assumptions
Economic assumptions include the interest rates used for discounting cash flows, the rate of inflation, and may include other assumptions as applicable to a particular program. They also include the interest rate charged to the borrower on the loan, if the rate is tied to a variable benchmark, such as the rate on specified Treasury securities.

Financing account
Financing account means a non-budgetary account (i.e., its transactions are excluded from the budget totals) that records all of the cash flows resulting from post-1991 direct loans or loan guarantees. It disburses loans, collects repayments and fees, makes claim payments, holds balances, borrows from Treasury, earns or pays interest, and receives the subsidy cost payment from the credit program account. There is at least one financing account associated with each program account. Separate financing accounts are required for direct loan cash flows and for loan guarantee cash flows if the program account receives an appropriation for the subsidy costs of both forms of credit. Financing account schedules are printed in the budget Appendix together with the program account.

Forecast assumptions
Forecast assumptions are factors that affect the expected cash flows of the loan or guarantee. They are factors which are estimated, but not actually observable, at the time of loan origination or modification. They include: default rates, timing of defaults, delinquency rates, late fees, proceeds from the sale of collateral or acquired defaulted loans, income from (and costs of managing) foreclosed collateral and acquired defaulted guaranteed loans, reschedulings, prepayments, loan asset sales proceeds and costs, and disbursement rates.

Guarantee Ceiling
The Guarantee Ceiling, which is on the Guarantee Agreement's term sheet, represents the maximum contingent liability that USAID would pay in claims to a guaranteed party. The Ceiling is equal to the Guarantee Percentage, which is typically 50%, multiplied by the Maximum Authorized Amount.

Inter-Agency Country Risk Assessment System (ICRAS)
ICRAS is a sovereign rating schedule that classifies risk levels, developed by U.S. financial regulatory institutions, the U.S. Export-Import Bank, USAID and the U.S. Department of State.

Interest on the Reestimate
The interest on the reestimate is the additional interest that would have been paid or earned by the financing account if the reestimated subsidy rate had been used as the budget execution subsidy rate.

Interest Rate Reestimate
The interest rate reestimate measures the change in the subsidy rate due to differences between interest rate assumptions (economic assumptions) at the time of budget formulation and execution and the actual interest rate(s) for the year(s) of disbursement.

Internal Rate of Return (IRR)
IRR is the interest (discount) rate at which the present value of an investment in a project is zero. When the IRR exceeds the prevailing interest rate, or the project's "cost of capital", the project is deemed to be an attractive investment.

Liability for Loan Guarantees
The liability for loan guarantees is equal to the net present value of the remaining cash flows, anticipated for a loan guarantee cohort or risk category.

Loan Disbursements
Loan disbursements are the amounts disbursed by commercial lenders to borrowers. The disbursements include the full amount disbursed, not just the federally guaranteed portion.

Maximum (Portfolio) Authorized Amount (MAA)
At any given time during a guarantee, the total amount outstanding under USAID guarantee coverage cannot exceed the MAA. While MCD is a threshold relative to disbursements, MAA is a limit relative to the outstanding balance under guarantee coverage.

Maximum Cumulative Disbursements (MCD)
The aggregate amount of disbursements, i.e. funds disbursed from a financial institution to a borrower or group of borrowers, allowed during the duration of the guarantee. In most LPGs, MCD is equal to the Maximum (Portfolio) Authorized Amount. If MCD exceeds MAA in the guarantee term sheet, this allows the lending institution to revolve funds under guarantee coverage as long as cumulative disbursements do not exceed MCD and the current outstanding balance does not exceed MAA.

Modified Use 90 percent
Modified Use 90 percent is a USAID-specific rule for calculating the disbursement-weighted average discount rate (the financing account earns or pays interest at the disbursement-weighted average discount rate). For budget purposes, a single interest rate reestimate is required for a cohort at the end of the fiscal year if a substantial cumulative amount of loan disbursements have been made for that cohort. Once made, the interest rate reestimate does not need to be performed again. When this rule is used, the rate for calculating interest costs and earnings is either the rate assumed in the budget for that cohort or the rate calculated when the loan is substantially disbursed.

Net Present Value (NPV)
The present value of all cash outflows (investments) and inflows (returns) of a project at a given interest (discount) rate. Since the streams of expenditures and receipts occur over a period of time, they are discounted to account for the time dimension, using the market interest rate or the financial cost of capital to the borrowing entity. When conducting a NPV analysis, the selection criterion is to accept activities with a NPV greater than zero.

Non-sovereign
A non-sovereign loan involves organizations such as private financial institutions, private businesses, municipalities or local authorities whose loans are not explicitly guaranteed by sovereign (state or central) governments. As such, the non-sovereign transaction does not benefit from a host government's full faith pledge of repayment, and therefore, a detailed credit risk assessment of the activity is required.

Pari Passu
The translation of the Latin term *pari passu* is "at an equal rate without preference" or "without partiality". In investment terms, it implies that two securities or obligations have equal rights to payment. With respect to DCA, it typically indicates that in a 50% guarantee scenario, we share losses in the form of claim payments to FIs (net of any recoveries received by the FI from collateral or other guarantees) on a 50/50 basis, and then in turn, FIs are required to share post-claim recoveries with USAID on a 50/50 basis.

Program account
Program account means a budget account that receives and obligates appropriations to cover the subsidy cost of a direct loan or loan guarantee and disburses the subsidy cost to the financing account. Program accounts usually receive a separate appropriation for administrative expenses.

Reestimates
Reestimates are revisions of the subsidy cost estimate of a cohort based on information about the actual performance and/or estimated changes in future cash flows of the cohort.

Recoveries
Following a claim payment from USAID to the FI, EGAT/DC sends the FI annual notices to update a Schedule of Net Recoveries, which includes a payment received from the defaulted borrower, asset liquidation or bankruptcy gains achieved (net of expenses) by the FI following the claim payment.

Similar Maturity Discounting
The FY 1992 through FY 2000 cohorts are discounted under the similar maturity discounting method. Under this discount method, the cash flows are discounted using a single interest rate (more technically called the "yield-to- maturity" rate) on a Treasury security of similar maturity to the direct or guaranteed loans in the cohort. There are five similar maturity bands, with a different discount rate set for each band: less than one year; one to five years; five to ten years; ten to twenty years; and twenty years or more. The FY 2001 and future cohorts are discounted using the "basket-of-zeros" discounting method; see the description above.

Single Effective Rate
The single effective rate is calculated for cohorts discounted using the basket-of-zeros discounting method, the FY 2001 and future cohorts. The single effective rate is the constant discount rate that produces the same subsidy rate as the full basket-of-zeros yield curve. Basket-of-zeros cohorts earn and pay financing account interest at the single effective rate.

Subsidy Cost
Loan guarantee subsidy cost means the estimated long-term cost to the Government of a loan guarantee, calculated on a net present value basis, excluding administrative costs. It is useful to think of the credit subsidy cost as a type of loan loss reserve in the case of default, or as a type of insurance premium that is paid whether or not an event occurs. More specifically, the cost of a loan guarantee is the net present value, at the time when the guaranteed loan is disbursed by the lender, of the following estimated cash flows:

- Payments by the Government to cover defaults and delinquencies, interest subsidies, and other requirements; and
- Payments to the Government, including origination and other fees, penalties, and recoveries.

These estimated cash flows include the effects of expected Government actions and the exercise by the guaranteed lender or the borrower of an option included in the loan guarantee contract. Obligations for the subsidy cost will be recorded against budget authority in the program account when the loan guarantee commitment is made. The subsidy will be paid to the guaranteed loan financing account when the loan is disbursed by the private lender.

Technical Reestimate
The technical reestimate measures the change in the subsidy rate due to changes in technical assumptions, including actual cash flows and updated future projections. The technical reestimate captures all changes except those captured in the interest rate estimate (described above).

Tenor
Duration or term of a loan.

Upward Reestimate
An upward reestimate occurs when the reestimated subsidy rate is higher than the original subsidy rate, or most recent reestimated rate, and indicates that additional subsidy is needed by the financing account. In the event of an upward reestimate, USAID's program account receives permanent indefinite authority funds and transfers it to the financing account.

USAID Credit Model
The USAID Credit Model is used in the preparation of reestimates to model projected cash flows.

Work-outs
Work-outs mean plans that offer options short of default or foreclosure for resolving troubled loans or loans in imminent default, such as deferring or forgiving principal or interest, reducing the borrower's interest rate, extending the loan maturity, or postponing collection action. Work-outs are expected to minimize the cost to the Government of resolving troubled loans or loans in imminent default. They should only be utilized if it is likely that the borrower will be able to repay under the terms of the work-out and if the cost of the work-out is less than the cost of default or foreclosure. For post-1991 direct loans and loan guarantees, the expected effects of work-outs on cash flow are included in the original estimate of the subsidy cost. Therefore, to the extent that the effects of work-outs on cash flow are the same as originally estimated, they do not alter the subsidy cost. If the effects on cash flow are more or less than the original estimate, the differences are included in reestimates of the subsidy and are not a modification.

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ADS 249 – Development Credit Authority (DCA)

249.1 OVERVIEW

Effective date: 01/28/2002

Development Credit Authority (DCA) is the legislative authority that permits USAID to issue partial loan guarantees to private lenders to achieve the economic development objectives in the Foreign Assistance Act of 1961, as amended (FAA). DCA also authorizes USAID to make direct loans. DCA guarantees require true private sector risk-sharing where the USAID share of a lender's risk does not exceed 50 percent (except as otherwise approved by the Credit Review Board (CRB)). DCA permits USAID to offer a mixture of grant and credit assistance in settings where USAID is seeking more disciplined and sustainable assistance relationships.

DCA is a low-cost tool to introduce private lenders and investors to creditworthy but underserved markets. It is based on the assumption that sustainable economic growth will occur when private financial markets in developing countries (LDCs) learn to emulate U.S. financial markets by mobilizing domestic capital and putting it to work.

DCA cannot be used for loans or guarantees to sovereigns, which could be subject to Paris Club rescheduling. DCA is intended for use instead of more costly grant assistance when a Mission can achieve the same goals, the borrowers are reasonably creditworthy, the projects are financially viable, and market imperfections prevent funding from commercial sources.

Leverage is a key factor that makes DCA important. Leverage results when USAID partial guarantees induce private lenders and investors to finance activities that support the Strategic Objectives (SOs) of Missions. Leverage also results from Federal budget scoring rules under the Federal Credit Reform Act of 1990 (FCRA), which permits Federal agencies to issue loans and loan guarantees having a nominal value far in excess of the value of required appropriations. For example, on average, every dollar of USAID contingent liability under DCA guarantees is expected to cost Missions/Operating Units two to seven cents. As and when USAID starts making direct loans under DCA authority, it is estimated that the cost will be approximately the same for every dollar disbursed. As a result, Federal agencies that can achieve some of their goals with credit assistance have an enormous budget advantage over those that cannot.

Under DCA, Missions/Operating Units have the flexibility to fund their activities with 100 percent grants, or they can transfer some of their funds to the DCA Account and in effect purchase the right to issue full faith and credit USG guarantees or loans having a value far in excess of the sums transferred. The actual cost to a Mission/Operating Unit, termed the "subsidy cost" (as defined in the ADS Glossary), to issue a loan or guarantee is determined by the Agency's Chief Financial Officer (CFO) using risk assessment models approved by OMB.

Because it is subject to independent risk and cost assessments, true risk-sharing with private sector partners, the prohibition on sovereign lending activities, and other credit reforms, DCA is a disciplined and market-based approach to USAID's use of credit. For these reasons, Congress has recognized that USAID can effectively manage and implement credit assistance. USAID's private risk-sharing partners, having assumed the majority of the financial risk, are motivated to perform serious independent risk analyses and provide adequate project management and oversight. The result is that Mission project oversight burdens will be more manageable.

249.2 PRIMARY RESPONSIBILITIES

Effective date: 01/28/2002

a. Missions and Operating Units may execute DCA obligating agreements in a manner consistent with their authorities to obligate other forms of assistance. There is no dollar limitation on the authority of Mission Directors and Assistant Administrators to obligate DCA funds. While USAID/Washington (USAID/W) has certain independent responsibilities to ensure the financial soundness of DCA activities, Missions/Operating Units have sole responsibility for the developmental soundness of DCA activities. Included in Mission/Operating Unit responsibilities are

- Identifying, designing, and paying for activities;
- Implementing, overseeing, monitoring, and evaluating activities;
- Requesting budget authority in the Annual Report Process;
- Preparing Congressional Presentation and Congressional Notification materials, as required;
- Coordinating with EGAT/DC in its efforts to prepare economic and financial viability analyses;
- Requesting preliminary and final subsidy cost estimates from USAID/W;
- Drafting and signing obligating agreements in cooperation with and subject to approval by Agency lawyers;
- Providing audited financial statements of local intermediate financial institutions and/or borrowers, and other information, as needed by USAID/W to make periodic subsidy cost re-estimates;
- Requesting assistance from USAID/W technical specialists for any of the above activities, as needed; and
- Developing plans (in conjunction with the Bureau for Economic Growth, Agriculture and Trade's early warning systems) for monitoring the financial

and credit performance of DCA activities as outlined in **ADS 623**, Financial Management of Credit Programs.

b. Mission Controllers are responsible for managing certain DCA financial events and reporting to the Bureau for Management, Office of Financial Management (M/FM) as outlined in **ADS 623.3.2**.

c. The Bureau for Economic Growth, Agriculture and Trade (EGAT – formerly known as the Bureau for Global Programs, Field Support, and Research) Office of Development Credit (EGAT/DC) is responsible for establishing and maintaining technical and financial expertise, including DCA credit expertise, and making such expertise available to Missions under its Mission support role. In addition, EGAT/DC is responsible for portfolio management. EGAT/DC is responsible for monitoring and managing DCA Accounts as necessary in order to manage the claims process and other disbursements necessary to service DCA activities. EGAT/DC also is responsible for performing the following activities, either directly or upon request:

- Performing preliminary risk assessments and credit subsidy cost estimates of proposed activities to assist a Mission/Operating Unit in determining whether the budget cost of a proposed DCA activity is affordable to the Mission/Operating Unit;

- Performing final risk assessments and providing specific support to the CRB on credit risk analysis;

- Preparing economic and financial viability analyses in accordance with the appropriate Mandatory Reference of this chapter in order to justify the use of DCA assistance and assist the determination of the subsidy cost;

- Assisting the Missions/Operating Units in developing early warning systems for monitoring the financial and credit performance of DCA activities;

- Troubleshooting problem DCA loans or guarantees in coordination with Missions/Operating Units;

- Managing the DCA Financing Accounts, which includes annual budget estimates, making funds available to pay claims, and assisting Missions/Operating Units in tracking financial Early Warning Reports from the outsourcing contractor to mitigate the risk to the U.S. Government (USG) per **OMB Circular A-129**;

- Performing re-estimates required under the Federal Credit Reform Act and regulations; and

- Assisting in determining the financial rates of return for proposed activities and assisting in developing appropriate financial structures and documents for proposed activities.

d. The Assistant Administrator of EGAT (AA/EGAT) is responsible for representing DCA before the Congress, the Office of Management and Budget (OMB), and the General Accounting Office (GAO), as required.

e. The Chief Financial Officer (CFO) is responsible for

- Chairing the Credit Review Board (CRB) and making a final determination of the credit subsidy cost of each proposed DCA activity;

- Ensuring that the Agency is in compliance with **OMB Circular A-129**; and

- Providing a contact point with OMB on credit budget issues, such as OMB Circular A-11 and the President's Budget Submission, and on specific credit subsidy issues.

f. The Bureau for Management, Office of Financial Management (M/FM) is responsible for providing financial management services for all DCA-funded activities. M/FM maintains the Agency proprietary and budgetary accounting systems for USAID Credit Programs in accordance with **ADS 623**, Financial Management of Credit Programs. M/FM is responsible for managing a Billings and Collections Unit that services all Agency credit programs, including DCA. M/FM responsibilities include

- Managing a contract with a private financial institution for the provision of certain loan servicing, accounting, paying and transfer agent, and other financial management functions and services;

- Preparing DCA financial reports, as required, in addition to including DCA operations as an integral part of the audited Agency Consolidated Financial Statement;

- Ensuring funds transfers, in coordination with Missions/Operating Units, geographic Bureaus, and the Bureau for Program and Policy Coordination, Office of Budget (PPC/B); and

- Notifying Missions/Operating Units of expenditure amounts under a DCA obligation on a periodic and timely basis.

g. The Credit Review Board (CRB) is an internal advisory committee composed of representatives from interested Bureaus and USAID/W units. The CRB is responsible for recommending to the CFO the final estimated subsidy cost of each proposed activity. As defined in its Charter, the CRB is further responsible for recommending policies and procedures designed to ensure the financial soundness of all USAID credit programs, including DCA. The CRB's responsibilities include

- Reviewing the financial and economic viability of proposed DCA activities (*see* section **249.3.1q** (financial viability) and **249.3.1r** (economic viability));

- Reviewing the final estimated credit subsidy cost of proposed activities and making recommendations to the CFO;

- Preparing summaries of relevant issues for the CFO; and

- Monitoring the financial performance of DCA activities, including reviewing re-estimates and modifications of credit subsidies, as required.

h. The Office of the General Counsel (GC), acting through GC/EGAT (formerly GC/G) and Regional Legal Advisors, is responsible for drafting and negotiating loan and loan guarantee agreements and other credit assistance agreements, and advising on compliance with the law, regulations, and other USAID guidance governing DCA.

i. The Bureau for Policy and Program Coordination (PPC) is responsible for policy oversight for DCA. PPC represents USAID on all interagency policy-making groups with responsibility for debt and credit matters.

j. Private sector "partners" are responsible for implementing activities in accordance with the terms and conditions of the applicable direct loan or loan guarantee agreements and applicable USAID regulations.

249.3 POLICY AND PROCEDURES

249.3.1 Guiding Principles

Effective date: 01/28/2002

The following are guiding principles of DCA:

a. DCA will be used as credit enhancement where development objectives can be achieved more effectively with credit assistance than with grant assistance alone.

b. DCA is not a specific program but merely a financing tool for all Missions/Operating Units, to be used in addition to or instead of grant funding where appropriate. Accordingly, the principles and policies applicable to the use of Development Assistance grant funding are presumed to be applicable to DCA funding, unless otherwise indicated.

c. DCA loan guarantees are preferable to direct loans.

d. DCA will be a demand-driven initiative, with Missions/Operating Units having primary responsibility for designing, authorizing, and implementing activities in support of approved Strategic Objectives and within Administration and Congressional priorities for assistance.

e. DCA responsibilities are divided between Missions and USAID/W. Missions/Operating Units are responsible for development soundness. The CRB and CFO are responsible for financial and economic soundness. DCA may only be used where there are reasonable prospects of repayment. DCA must not be used where the subsidy cost of an activity exceeds 30 percent of the principal amount to be loaned.

f. DCA requires true private sector risk sharing. For loan guarantee transactions, DCA must not cover more than 50 percent of a lender's risk unless the CFO approves.

True risk sharing with private lenders is generally intended to refer to a guaranteed lender's own risk, not the overall project risk carried by other private sector parties. The DCA true risk-sharing principle will generally be met where USAID's risk-sharing partner is placing its own capital at risk, the partner is a private nongovernmental entity with a profit motive or the equivalent, and if defaults occur, the partner's net losses will equal or exceed USAID's. Nonprofit entities are deemed to have the equivalent of a profit motive when the risk analysis demonstrates a record of prudent risk management.

The following example illustrates true risk-sharing: If a $10 million wholly private sector activity requires $4 million in equity and $6 million in debt financing and a single lender proposes to lend $6 million, a DCA guarantee could cover 50 percent or $3 million of loan principal (or, less preferably, principal and interest).

Using the same example, if two lenders were each to lend $3 million, a DCA guarantee could cover half of **each** lender's loan but not all of the first lender's risk and none of the second lender's risk. This is true notwithstanding the fact that 70 percent of project risk is held by other private investors. The reason is that USAID will have analyzed its contractual partners but not other private investors that are taking risk.

The sound operation of DCA depends heavily on selecting true risk-sharing partners that have a motive to carry out effective risk analysis and project implementation. True risk-sharing is not compromised if partners take and hold security interests in collateral in accordance with normal lending practices. However where practicable the collateral should be held for the benefit of USAID as well as the lenders in proportion to their relative risk. Note that in portfolio guarantee transactions involving many individual loans, collateral-sharing arrangements are not practicable.

g. DCA financing must not be used unless it is probable that the transaction would not go forward without it, taking into consideration whether such financing is available for the term needed and at a reasonable cost. Guarantees of principal are generally preferable to guarantees of principal and interest if the same goals can be achieved.

h. Loans made with DCA assistance must reflect market rates. Any question regarding market rates must be resolved through joint consultation with the Mission/Operating Unit and EGAT/DC.

i. DCA fee structures are to be designed to encourage utilization, while taking into consideration local practice, the development rationale of the DCA project, and the costs of administering the project.

j. Currency mismatches are strongly discouraged. Currencies earned by DCA activities should match the borrowers' liabilities unless adequate currency exchange structures are in place. In other words, if the financial viability analysis indicates that revenues to repay the debt are local currency revenues, then the underlying loan should be local currency denominated.

k. DCA will be used to produce greater development impact and improve Agency performance as reported under the Government Performance and Results Act (GPRA). DCA will not be used merely for budget support or to increase the nominal assistance levels to specific borrowers or sectors. Preference will be given to credit enhancement activities that are of a wholesale as opposed to retail nature where USAID agrees to support a broad range of developmentally significant activities that meet defined eligibility requirements.

l. DCA will be used primarily in USAID presence countries in support of Agency Strategic Objectives and in support of USAID-assisted policy and institutional reforms. DCA is also appropriate for use in support of global priorities and as part of an exit strategy in countries where USAID assistance is being phased out.

m. DCA will be used to address market imperfections.

n. Like programs offered by EX-IM Bank, Overseas Private Investment Corporation (OPIC), and the Trade and Development Agency (TDA), DCA provides another option for engaging private entities to advance the strategic interests of the U.S. Government.

o. To the maximum extent practicable (and in a manner consistent with OECD Tied Aid and Export Credit Arrangements), DCA activities will use or employ U.S. technology, firms, and equipment. (See Mandatory Reference, **H.R. 1486 section (d)(8)**)

p. Sovereign governments are not eligible as DCA borrowers or lenders. Subsovereign and parastatal entities are eligible to receive assistance under DCA if they are eligible to receive development assistance under the FAA and have Interagency Credit Risk Assessment System (ICRAS) ratings in the range of B to D-.

q. Each activity funded under DCA must be financially viable (i.e., it must have sufficient cash flows to meet all operational costs and service all debt). The CFO makes all final determinations regarding the financial viability and creditworthiness of a DCA activity. Activities must be financially sustainable through revenues generated directly by activity operations. However, where host government subsidies are required, such subsidies should be firmly identified and committed, and not amorphous or open-ended.

r. Each activity must be economically viable. An economically viable activity is a development project that aims to correct a financial market imperfection in a host country, region, or targeted sector. A market imperfection exists where the capital markets fail to provide private sector lending to otherwise creditworthy projects or sectors. DCA allows USAID to act as a lender of last resort to bridge these market imperfections.

s. Private sector "partners" are responsible for taking the lead role in project implementation and project management because they bear the majority of the risk in every DCA project.

t. DCA loan terms must not exceed 20 years without CFO approval.

249.3.2 Selected Statutory Provisions

Effective date: 01/28/2002

The following are selected statutory requirements of the DCA Authority first enacted by Section 591 of the FY 1998 Appropriations Act. (In some cases, Agency policy is more stringent than the statute.)

a. The policy provisions in Part I of the FAA applicable to development assistance activities also apply to DCA activities, as appropriate. (See Mandatory Reference, **H.R. 1486 section (d)(1)**)

b. The provisions of Section 620(q) of the FAA, or any comparable provisions of law (e.g., the Brooke Amendment), must not be construed to prohibit assistance to a country in the event that a private sector recipient of DCA program assistance is in default in its payment to the United States for the period specified in such section. (See Mandatory Reference, **H.R. 1486 section (d)(2)**; see also **ADS 623**)

c. DCA assistance will be offered on the terms and conditions, including fees charged, that USAID determines. (See Mandatory Reference, **H.R. 1486 section (d)(3)**)

d. The principal amount of DCA direct loans or loan guarantees in any fiscal year, with respect to any single country or borrower, may not exceed $100,000,000. (See Mandatory Reference, **H.R. 1486 section (d)(3)**)

e. No payment may be made under any DCA loan guarantee for any loss arising out of fraud or misrepresentation for which the party seeking payment is responsible. (See Mandatory Reference, **H.R. 1486 section (d)(3)**)

f. All DCA loan guarantees in accordance with the terms of such guarantees will constitute obligations of the United States, and the full faith and credit of the United States is pledged for the full payment and performance of such obligations. (See Mandatory Reference, **H.R. 1486 section (d)(4)**)

g. DCA assistance must be in the form of co-financing or risk-sharing. No DCA assistance may be provided to a borrower unless USAID determines that there are reasonable prospects of repayment by such borrower. The investment or risk of the United States in any one development activity may not legally exceed 80 percent of the total outstanding investment or risk. (See Mandatory Reference, **H.R. 1486 section (d)(5)**)

249.3.3 Activity Development and Design
Effective date: 01/28/2002

Generally, the activity development and design processes in **ADS 202**, Achieving, are applicable to DCA-funded activities. In addition, there are procedures that are DCA specific, as follows:

a. Economic and Financial Viability Analyses. EGAT/DC, with assistance from Missions/Operating Units, will analyze the financial and economic viability of proposed activities. The Credit Review Board (CRB) reviews these analyses to determine whether the activity meets the policy guidelines in this chapter and whether any deviations are required. These analyses are also used for the USAID/W controlled risk assessment.

b. Allocation of Budget Authority (BA). The Congress appropriates DCA BA in annual appropriations acts. The BA generally will be allocated among competing Missions as part of the normal budget process. The types of BA that have been used also include the authority to transfer funds from other accounts for DCA purposes.

c. Procedures. Detailed DCA procedures, including a chronology of events and an estimated timeline, can be found in the **DCA Operations Manual**. A Mission contemplating a DCA activity should consult with the appropriate regional Bureau representative to the DCA working group and its regional lawyers, who will guide the Mission through every step of the process.

The following is a summary of generally recommended DCA procedures:

(1) The process normally begins with a one- or two-page summary proposal of the activity sent by the Mission to its own regional Bureau representative, who in turn shares it with the EGAT Bureau's Development Credit Office (EGAT/DC). The USAID/W informal review of the proposal results in a preliminary indication as to whether the activity is suitable for DCA financing and a rough estimate of the range of probable subsidy costs of the activity.

(2) If the estimated range of costs fits within the Mission's budget priorities and the proposal is otherwise reasonably suited for DCA financing, the Mission begins detailed activity design, while EGAT/DC begins the required economic and financial viability analyses. Mission economists, contractors, EGAT sectoral and/or credit experts, and other Agency units are available on request to assist in the design and analysis processes.

(3) The end result of the detailed design process is an Action Memorandum from the Mission/Operating Unit through the CRB to the CFO which indicates internal Mission/Operating Unit approval of the activity and requests the CFO to determine and/or confirm the (a) final subsidy cost to be charged to the Mission/Operating Unit, (b) suitability of the activity for DCA financing, and (c) availability of transfer authority within the statutory ceiling or the availability of other DCA budget authority.

(4) The CRB reviews the Action Memorandum and makes a recommendation to the CFO to approve or disapprove the activity. The CRB may request additional information or condition its approval on such additional information or actions as indicated.

(5) The CFO makes a decision. If the activity is approved and the Mission/Operating Unit has already received an allocation of DCA budget authority or transfer authority, the Mission/Operating Unit is free to draft, negotiate, and execute the loan or loan guarantee agreement (in conjunction with GC lawyers) and begin activity implementation. If the activity is approved but the Mission does not yet have an allocation of DCA budget authority, the Mission and its regional Bureau representative seek to resolve this issue.

(6) After the CFO approves an activity, the Mission/Operating Unit prepares a Congressional Notification (CN). The Mission/Operating Unit

clears the CN following its normal procedures, with clearance from EGAT/DC.

249.3.4 Loan Guarantees

Effective date: 01/28/2002

The following are the policies and procedures of DCA loan guarantees:

a. Borrowers, not USAID, select their own lenders. Generally, USAID should reserve the right to approve the lender selection procedure, the actual lender or lenders selected, and the terms of loans guaranteed.

b. DCA guarantees may be for dollar- or non-dollar-denominated debt. However, in the latter case, the total USAID contingent liability must be capped or limited in dollar terms.

c. Beneficiaries of the USAID guarantee generally should be required to pay a semi-annual utilization fee based on the guaranteed portion of outstanding principal of the guaranteed loan. The authorizing official should set the utilization fee at not less than 0.25 percent per annum (except as described in this paragraph). In addition, a one-time activity origination fee (also known as "commitment fee") of not less than 0.25 percent of the maximum guaranteed principal amount should be charged (except as described in this paragraph). The authorizing official should work with EGAT/DC to come up with a fee structure (including timing and currency of fee payments) that will encourage utilization, while taking into consideration local practice, the development rationale of the DCA project, and the costs of administering the project. In the event that it is determined that the origination fee should be waived or credited toward the utilization fee, the utilization fee may not be set at less than 0.5 percent per annum. The fee structure must be justified in the activity analysis.

d. A DCA guarantee may be a guarantee of payment or of collection, depending on the needs of the activity. USAID prefers guarantees of collection because this maximizes the guaranteed party's incentive to properly manage the collection process.

e. Missions/Operating Units may impose conditions on the lender selection process, including, for example, a public bidding process or a public notice of the borrower's intention to borrow.

f. Missions must reserve the right to approve the interest rate and other terms and conditions of loans to be guaranteed. Missions must reserve the right to refuse to issue a guarantee if it is believed the terms are not sufficiently advantageous to the borrower. Where the USAID guarantee is intended to cover a broad portfolio of loans, the Mission/Operating Unit's approval rights may be exercised by the approval of standard forms of loan agreements.

g. DCA guarantee agreements generally can be categorized in four ways:

(1) **Portfolio guarantees**, where USAID agrees to share in the risk of a broadly defined category of bank loans with a view toward inducing local banks to extend credit to an underserved sector.

(2) **Project-specific guarantees**, where USAID is using DCA for specific credit enhancement purposes and the borrower, lender, and uses of the loan proceeds are known.

(3) **Portable guarantees**, where USAID is using DCA for specific credit enhancement purposes and the purpose and borrower are known, but the lender is not yet known. In these cases, the minimum credit rating (Standard & Poor's, Moody's, etc.) is established and the risk calculation and subsidy cost are based on the assumption that the eventual lender will have a rating equal to or above the minimum set.

(4) **Bond guarantees**, where USAID protects investors on a bond issuance. This mechanism is used for municipal or private sector financing.

Agency lawyers should draft guarantee agreements using precedent agreements appearing on the GC Home Page at the following URL: **http://inside.usaid.gov/A/GC/**. Authorizing officials have the authority to negotiate and sign guarantee agreements with the appropriate input and clearance from GC. Copies of guarantee agreements, when executed, must be forwarded to M/FM and to GC/EGAT.

249.3.5 Direct Loans [RESERVED]

Effective date: 01/28/2002

Note: This policy guidance will be provided as and when the Agency begins to use DCA for direct loans.

249.3.6 DCA Appropriations Process

Effective date: 01/28/2002

Federal agencies may not issue loans or guarantees unless Congress has specifically appropriated funds to cover the estimated life of project costs to taxpayers, as expressed in present discounted value terms. This cost is referred to as the "subsidy cost." Congress may directly appropriate a specific "subsidy" amount for the DCA Account in a line item appropriation. In addition, or alternatively, Congress may appropriate "transfer authority" (as in Fiscal Year 2001) authorizing the transfer of up to a stated amount of appropriated funds in specified appropriation accounts to the DCA Account to cover the estimated subsidy costs of approved activities.

USAID prefers DCA transfer authority because it gives Missions/Operating Units maximum flexibility and maximum "ownership." With transfer authority, Missions are free to pursue their SOs with grant funds costing 100 cents on every dollar of assistance or they can transfer a portion of their operating year budget (OYB) to the DCA Account (within available statutory ceilings) and in effect use DCA to induce risk-sharing partners to expend much larger amounts of their own capital on Mission-approved activities.

Future annual appropriation acts will establish a ceiling on transfer authority and indicate which appropriations accounts are subject to the transfer authority.

249.3.7 Procurement Source and Origin Rules

Effective date: 01/28/2002

DCA is exempt from the "Buy America" rules of FAA Section 604(a). (See Mandatory Reference, **H.R. 1486 section (d)(2)**) However, the DCA statute requires that DCA activities, to the maximum extent practicable, use or employ U.S. technology, firms, and equipment. In certain cases where credit assistance is associated with grant assistance, donor rules against tied aid may result in conflict. Therefore, tied aid procurement issues should be handled on a case-by-case basis with the assistance of GC and PPC and, as appropriate, the Treasury.

249.3.8 Audit and Evaluation

Effective date: 01/28/2002

The Bureau for Policy and Program Coordination, Center for Development Information and Evaluation (PPC/CDIE) is responsible for DCA program-wide evaluations. Each Mission/Operating Unit is responsible for evaluating its activities under DCA. The CFO is responsible for individual credit program Financial Statement preparation, as deemed necessary by Agency management. In addition, DCA will be an integral part of the audited Agency consolidated financial statements.

249.3.9 Guarantee Claims

Effective date: 01/28/2002

Missions/Operating Units should be the focal point for investor or lender claims under DCA guarantees. Missions/Operating Units should determine if claims are valid and request EGAT/DC to process claims payments and arrange wire transfers of funds directly to claimants. Disbursement of claims to the guaranteed party must be handled as indicated in **ADS 623.3.2**.

249.3.10 Budget Programming and Funds Transfer Processes (Credit Subsidy and Operating Expense (OE) Costs and Transfer Authority)

Effective date: 01/28/2002

USAID's annual budget guidance to the field will instruct Missions/Operating Units to include requests for DCA budget authority. Ideally, the request for DCA budget authority will be included along with requests for the Mission's grant and operating expense (OE) budget. Missions/Operating Units should also estimate and include in their budget requests their OE expenditures attributable to DCA activities, pursuant to guidance issued by the Agency.

When a DCA activity is approved and the subsidy cost determined, the Mission/Operating Unit must transfer its funds into the DCA Account before it can execute the guarantee agreement or other obligating instrument. The regional Bureau's program office manages the responsibility to effect the transfer of funds.

Generally, the transfer of funds into the DCA account follows these steps:

- For Missions, the Bureau makes an appropriate reduction from the funds allowed to the Mission, thus regaining USAID/W control of the necessary funds.
- The Bureau and PPC/B make a request to OMB and Treasury to reduce the budget authority level in the relevant appropriation account, and to increase by a commensurate amount the budget authority level of the DCA Account.
- OMB makes an apportionment of DCA Account budget authority to USAID.
- PPC/B makes an allowance of the DCA budget authority to the Bureau.
- The Bureau sends an e-mail regarding the allowance of the funds to the Mission (the e-mail will provide a funding citation to enable the Mission Controller to enter the funding in the Mission accounting system).

The funds are legally obligated in the case of a loan guarantee when an authorized USAID official and a guaranteed party sign a loan guarantee agreement or a binding guarantee commitment letter.

249.3.11 Financial Management

Effective date: 01/28/2002

Pursuant to **ADS 623**, Financial Management of Credit Programs, Mission Controllers are required to track and report certain DCA financial transactions.

Another Mission financial responsibility is to assist in ensuring timely repayment of USAID guarantee fees and other charges that are normally billed directly to guaranteed parties by the financial intermediary selected by M/FM (currently Riggs Bank) to perform such functions. Depending on the agreement between USAID and the Guaranteed Party and/or lender, Mission Controllers may be requested to collect local currency fee payments and to make local currency claims payments. M/FM will provide loan-servicing functions in conjunction with the same private financial intermediary under an accounting and Paying and Transfer Agent contract. Mission Controllers may be asked to assist in collection efforts and otherwise help to ensure that borrowers perform certain responsibilities under DCA assistance.

249.3.12 Authorization and Obligation
Effective date: 01/28/2002

DCA assistance activities are authorized by Agency officials under delegations of authority set forth in ADS 101, Agency Programs and Functions, and ADS 103, Delegations of Authority. Missions/Operating Units must use procedures and forms for authorizing and approving a DCA activity that are consistent with those used for other assistance activities. A sample form of Activity Authorization for DCA assistance is included in the DCA Operations Manual and indicates the level of detail that will appear in most Mission authorizations. (See Additional Help, **DCA Operations Manual**) DCA funds are legally obligated when an authorized USAID official and a guaranteed party sign a loan guarantee agreement or a binding guarantee commitment letter.

249.3.13 Deviations
Effective date: 01/28/2002

The CFO, upon consultation with the CRB, may approve deviations from any of the policies and guidelines contained in this chapter.

249.4 MANDATORY REFERENCES

249.4.1 External Mandatory References
Effective date: 01/28/2002

a. **Annual "Foreign Operations, Export Financing, and Related Appropriations Acts" (see "Development Credit Account") which refer to Section 107A(d) of the Foreign Assistance Act of 1961, as contained in Section 306 of H.R. 1486 as reported by the House Committee on International Relations on May 9, 1997**

b. **Foreign Assistance Act of 1961, as amended (FAA), Part 1; Section 635(a)**

c. **OMB Circular A-129**

249.4.2 Internal Mandatory References
Effective date: 01/28/2002

a. **ADS 202, Achieving**

b. **ADS 623, Financial Management of Credit Programs**

c. USAID Development Credit Risk Assessment Handbook

249.5 ADDITIONAL HELP
Effective date: 01/28/2002

a. ADS 103, Delegations of Authority

b. DCA Operations Manual

Questions should be addressed to EGAT/DC and GC/EGAT. See the following web site for additional helpful information:

http://www.usaid.gov/economic_growth/egad/ci/dca2.htm

249.6 DEFINITIONS
Effective date: 01/28/2002

Credit Review Board
The Credit Review Board (CRB) is an internal advisory committee reporting to the USAID Chief Financial Officer (CFO). Pursuant to the CRB Charter, the CRB has the responsibility to recommend, for the CFO's final determination, the credit subsidy cost of each proposed DCA activity. The Charter further provides that the CRB recommends policies and procedures designed to ensure the financial soundness of all USAID credit programs, including DCA. (Chapter 249)

Interagency Country Risk Assessment System (ICRAS)
The Interagency Country Risk Assessment System (ICRAS) is a confidential interagency process through which the credit risk associated with U.S. credit assistance to foreign countries is assessed periodically (at least once every three years, and annually for key borrowing nations). An interagency group chaired by OMB uses common standards for country risk assessment to rate countries on a scale of A to F- on the basis of economic and political/social variables. Each country receives two ratings: a sovereign (official government) risk rating and a private risk rating, the latter assessing a country's market environment for nonsovereign transactions. (Chapter 249)

nonsovereign risk
Private sector risk not backed by the full faith and credit of a sovereign nation. A risk assessment model approved by the Credit Review Board must be used to calculate the credit subsidy cost estimate for a DCA activity when the borrower is a nonsovereign entity. (Chapter 249)

sovereign risk
Risk undertaken by a sovereign government or a sovereign entity that is backed by the full faith and credit of a sovereign government. (Chapter 249)

subsidy cost
The cost of a grant of financial aid, usually by a governmental body, to some person or institution for particular purposes. Credit subsidy cost is the estimated long-term cost to

the government of direct loans or loan guarantees calculated on a net present value basis, excluding administrative costs. Direct loan subsidy cost is the estimated long-term cost to the government of direct loans calculated on a present value basis, excluding administrative costs. The cost is the present value of estimated net cash outflows at the time the direct loans are disbursed. The discount rate used for the calculation is the average interest rate (yield) on marketable Treasury securities of similar maturity to the loan, applicable to the time when the loans are disbursed. Loan guarantee subsidy cost is the estimated long-term cost to the government of loan guarantees calculated on a present value basis, excluding administrative costs. The cost is the present value of estimated net cash outflows at the time the guaranteed loans are disbursed by the lender. The discount rate used for the calculation is the average interest rate (yield) on marketable Treasury securities of similar maturity to the loan guarantees, applicable to the time when the guaranteed loans are disbursed. (OMB Circular No. A-11) (Chapters 249, 623)

subsovereign risk
Risk undertaken by municipalities or parastatal organizations that is not backed by the full faith and credit of a sovereign nation. (Chapter 249)

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USAID – Designing Loan Guarantees – P. Freedman

DESIGNING LOAN GUARANTEES TO SPUR GROWTH IN DEVELOPING COUNTRIES

by Paul L. Freedman

The author is a legal advisor for the U.S. Agency for International Development (USAID). The views expressed in this paper reflect those of the author and do not necessarily reflect those of USAID. The author is grateful to Michael Kitay, John Wasielewski, Tryfan Evans and numerous other colleagues for their helpful comments and to Andrew Hjelle for invaluable research assistance.

Introduction

There is widespread recognition by the international donor community that a greater role for the private sector is essential for tackling many of the development challenges outlined in the ambitious Millennium Development Goals.[1] Direct assistance from donor governments will not be sufficient to meet these challenges, and innovative ways to leverage private sector resources are needed. In recent years several multilateral development banks and bilateral development agencies have introduced partial loan guarantees as part of their assistance efforts. These loan guarantees are largely designed to stimulate private sector lending that will advance the Millennium Development Goals. The guarantees are often provided to lenders in developing countries for loans denominated in the domestic currency as opposed to U.S. Dollars or Euros. The U.S. Agency for International Development (USAID) has been particularly active in using partial loan guarantees under its Development Credit Authority (DCA).[2] During the past three years, USAID has provided approximately 100 partial loan guarantees to lenders in over 30 developing countries for projects spanning a wide range of sectors.

This paper explores the development rationale for partial guarantees of domestic currency loans in less developed countries (LDCs).[3] By way of background, the paper briefly discusses the deficiencies in credit markets in developing countries and how loan guarantees can help tackle some of these deficiencies. The paper then presents some fundamental issues surrounding the design of an effective loan guarantee program and how USAID has addressed these issues in the design of its DCA loan guarantees. The paper also examines the potential impact of partial loan guarantees on several types of businesses and sectors that are important for development: small and medium enterprises (SMEs), micro-enterprises, housing and infrastructure.

Condition of Credit Markets in Developing Countries

The absence of robust credit markets in developing countries is a significant impediment to sustained economic growth. Productive economic activity

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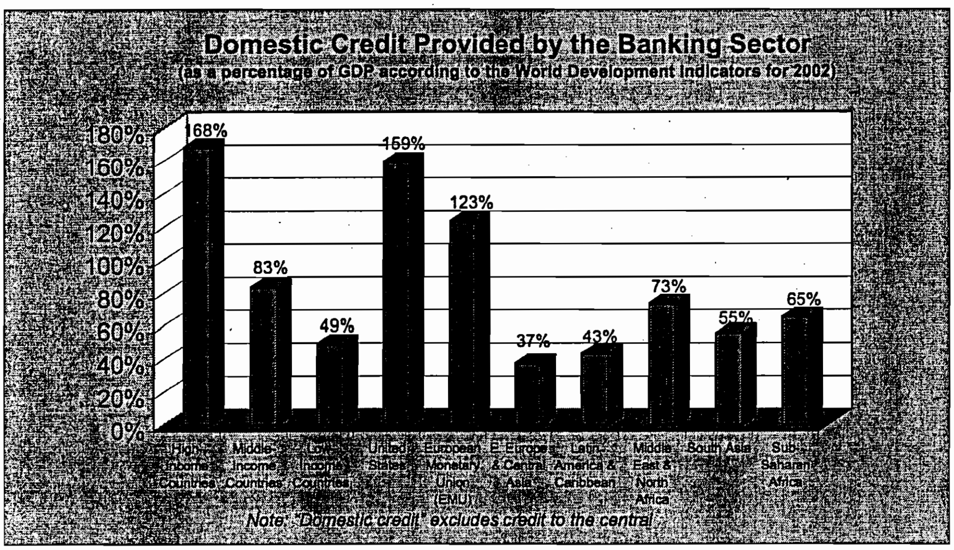
[1] The Millennium Development Goals announced by world leaders in September 2000 contemplate the eradication of extreme poverty and hunger, the provision of universal primary education, significant reductions in child mortality and diseases, cutting in half the number of people without access to safe drinking water, and securing adequate housing for 100 million slum dwellers – all by 2015. http://www.developmentgoals.org.

[2] The Development Credit Authority is the legal authority under which USAID can issue partial credit guarantees, including guarantees of loans, bonds and other forms of debt.

[3] Throughout this paper the term LDCs will be used to refer to all developing countries, both low-income and middle-income.

is severely limited by the inability of entrepreneurs, small businesses and individuals to obtain loans. In contrast, there is widespread access to credit in most developed countries, and it is relatively easy for entrepreneurs to get a loan to start a business, for small businesses to get a loan to expand their operations or for individuals to get a loan to purchase a home.

Empirical studies have demonstrated that credit to the private sector plays a crucial role in economic growth, and developed countries enjoy higher growth rates partly because they have more vigorous credit markets.[4] In 2002, annual domestic credit provided by the banking sector in high-income countries averaged 168% of GDP.[5] For the U.S. it was 159% of the U.S. Gross Domestic Product (GDP) – this amounts to over $16 trillion in bank lending to the private sector. In contrast, the 2002 annual domestic credit provided by the banking sector in middle-income countries averaged just 83% of their GDP and for low-income countries the average was 49% of their GDP. The disparity between the level of credit in LDCs and high-income countries is even greater than these numbers suggest, because banks are the primary source of credit in LDCs while high-income countries have sizable bond markets and other significant non-bank sources of credit.



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[4] See generally Levine, Ross; Loayza, Norman; and Beck, Thorsten. 2000. "Financial Intermediation and Growth: Causality and Causes." *Journal of Monetary Economics*. 46: 31-77; and The World Bank. 2001. *Finance for Growth: Policy Choices in a Volatile World*. World Bank Policy Research Report. New York: Oxford University Press, Inc., Chapter 1.

[5] The World Bank. 2004. *World Development Indicators 2004*. Washington, DC, 270-273. Domestic credit is defined as "Domestic credit provided by the banking sector to various sectors on a gross basis, with the exception of credit to the central government, which is net. The banking sector includes monetary authorities, deposit money banks, and other banking institutions for which data are available."

Even when credit is available to businesses in LDCs the loans must be repaid in a very short time frame. Without longer repayment periods it is difficult to finance investments in new equipment or technology because such investments may not yield sufficient revenues in the short-term to repay a loan. High collateral requirements are another burden for prospective borrowers. Banks make lending decisions largely based on the value of assets pledged by a borrower rather than a borrower's expected revenues and cash-flows. Borrowers often must satisfy collateral requirements well in excess of 150% of the loan amount. This precludes most potential borrowers from debt financing and, in particular, those desiring to start a new business.

The low-volume of lending to the private sector in developing countries is not primarily due to a lack of funds in the banking sector. Banks in LDCs generally lend only a modest portion of their total deposits to private sector borrowers, while a large percentage of their deposits remain in liquid assets such as cash positions, inter-bank loans, central bank debt or short-term government securities. For example, U.S. banks keep roughly 6% of their total deposits in liquid assets and the bulk of their capital is used for non-sovereign loans. By contrast, many banks in developing countries maintain 50% or more of their total deposits in liquid assets and provide minimal credit to the private sector. The liquidity within the banking system in many developing countries amounts to a significant percentage of GDP. This represents a massive failure of the financial system to allocate capital to its most productive uses.

There are a number of reasons for the failure of banks in developing countries to lend a higher percentage of deposits to private sector businesses and entrepreneurs. A thorough discussion of these reasons is beyond the scope of this paper, but a brief summary is needed before analyzing the potential impact of loan guarantees on credit markets in developing countries. Due to heightened macroeconomic risk and volatility, it is prudent for banks in developing countries to keep a high percentage of deposits in liquid assets. The likelihood of a run on the bank or an economic crisis that triggers a wave of defaults is greater in developing countries, and banks in LDCs sensibly maintain substantial liquid assets so that they can withstand a sizable withdrawal of deposits and maintain solvency during periods of economic turmoil. Central banks also impose higher reserve requirements due to this heightened macroeconomic risk and volatility. Nevertheless, banks often maintain reserves well in excess of the required amounts.

There are several reasons why banks in LDCs maintain excess reserves and do not lend more to the private sector:

First, the legal and judicial environment is deficient and property rights are not adequately protected. It is very difficult (and sometimes impossible) to enforce contracts in developing countries. The process is time-consuming and costly and the outcome is not always assured.[6] As a result, lenders are not confident they can get repaid if the borrower defaults. To help ensure that the borrower will repay, lenders impose very high collateral requirements which borrowers often cannot satisfy because they do not have adequate legal title to assets such as their land or equipment.

Second, governments in LDCs often run large deficits and this drives up interest rates and crowds-out local investment. Banks are able to make a good profit taking in deposits and using them to purchase government bonds, so they are less inclined to search for lending opportunities with entrepreneurs and private firms.

Third, banks have great difficulty ascertaining which borrowers are good credit risks due to a high degree of asymmetric information. Banks do not know nearly as much about a borrower's operations and likelihood of repayment as the borrower knows. Banks lack reliable information and data about borrowers. There is an absence of accurate financial statements and financial records that can demonstrate that a borrower has been earning enough revenue to repay a loan. There are few if any credit bureaus that provide lenders with the credit history of prospective borrowers and whether they have repaid prior debts.

Fourth, bankers in LDCs lack experience lending to the private sector and this hinders financial intermediation. Many banks in developing countries were privatized recently or remain state-owned and the bankers have not developed adequate skills for analyzing credit risk in certain sectors and conducting cash-flow analysis.

Need for Financial Pioneers in LDCs

The transformation of credit markets in LDCs will require tackling the aforementioned fundamental obstacles to the flow of credit, and, on a more micro-level, it will also require that individual financial institutions within LDCs overcome high risk-perceptions and serve as financial pioneers in new markets. As legal and policy reforms are implemented banks will become more inclined to increase their lending to the private sector. However, banks often perceive new types of lending as inherently risky and are reluctant to devote the time

[6] For excellent data on the difficulties in contract enforcement in LDCs, see The World Bank. 2004. *Doing Business in 2004*, Chapter 4.

and resources needed for new types of lending even if improvements have been made to the legal framework. Similar to many LDCs today, the United States at the turn of the 20th century had a large informal sector in which most small businesses lacked access to affordable credit. As collateral laws were improved a new wave of lending to entrepreneurs and small businesses did not spontaneously emerge. Instead, one bank, Bank of America, slowly pioneered lending to the traditionally marginalized small business sector and figured out how to make such lending profitable.

Through aggressive outreach efforts it took in billions in deposits of personal savings that otherwise would have remained "under the mattress". It used such deposits to make loans to middle-income and low-income individuals that were previously denied credit. Entrepreneurs and small businesses got loans for the first time and they proved to be good customers that continued to borrow from Bank of America. In the 1920s Bank of America was just a small Italian bank that lent to Italian immigrants, and by the 1950s it was the largest bank in the United States with over $7 billion in deposits (in 1950s dollars) and over 5 million separate customer savings accounts.[7]

Over time, other banks followed Bank of America's lead and initiated new lending programs to the small business sector. U.S. banks learned how to lend profitably to small businesses and individuals, and the volume of loans going to these traditionally credit-marginalized groups expanded exponentially. This new lending helped drive economic growth. As the burgeoning field of behavioral economics has increasingly demonstrated, financial markets often act in such a herd-like manner. Once one bank jumps into a new sector or line of business, this impacts the perception other banks and they are more likely to undertake investments in that same sector or line of business. Similar to the role of Bank of America in fostering lending to small businesses in the U.S., LDCs need some banks to serve as pioneers for lending into new sectors.

Partial loan guarantees are a tool that can encourage LDC banks to serve as financial pioneers and provide loans to new sectors or borrowers or offer more innovative financing terms. Partial loan guarantees reduce market-entry risks for lenders contemplating new products, thus reducing aversion to new types of lending. Financial institutions develop skills from partially guaranteed loans because the process of making new loans forces banks to conduct due diligence and build internal risk-assessment abilities as well as loan monitoring skills. In the course of undertaking new loans banks may prepare new credit guidelines, hire new loan officers, conduct evaluations of new types of

[7] James, Marquis and James, Bessie Rowland. 1954. *Biography of a Bank: The Story of Bank of America*. New York: Harper.

collateral or establish internal databases and systems that allow for greater efficiency and more comprehensive analyses of new types of borrowers. Through learning-by-doing, banks are better able to identify good borrowers and this allows them to expand their lending activities over a sustained period of time.[8]

Designing Loan Guarantees to Develop Credit Markets

Loan guarantees should be designed to correct market-failures rather than distort markets. In the case of partial loan guarantees, if a primary objective is enhancing economic growth then the loan guarantee program should be meet the following tests:

a) a market imperfection exists, resulting in a lack of financing for credit-worthy borrowers (i.e. borrowers that are likely to earn sufficient revenues to repay the loan);
b) the loan would not have been made but for the loan guarantee (this if often referred to as "additionality"- the loan is additional to what would take place in the absence of the guarantee); and
c) the loan guarantee will not create incentives for significant moral hazard (i.e. reckless conduct) with respect to the guaranteed lender or the borrower.

In addition to satisfying these tests, partial loan guarantees designed to spur growth should also try to foster sustained lending. Guarantees will be more beneficial if lenders continue lending to new borrowers or new sectors once the partial guarantee is no longer available to them.

Market Imperfections

Without market imperfections there is little basis for government intervention – creditworthy borrowers are able to obtain financing. Imperfect credit markets exist when creditworthy borrowers are unable to obtain loans. In every economy there are market imperfections, but they are particularly severe in developing countries. There is generally less widespread and easily disseminated information about businesses in LDCs. Much economic activity remains in the informal sector, and audited financial statements, credit ratings and well-documented records of a business' operations are often lacking. There is extensive credit rationing and redlining by banks. For example, banks often

[8] For a general discussion of "learning by doing" and the potential for financial sector deepening from loan guarantees, see Doran, A. and Levitsky, J. 1997. *Credit Guarantee Schemes for Small Business Lending – A Global Perspective.* Prepared for the UK Overseas Development Administration. London: Graham Bannock and Partners Ltd., 9, 11, and 31.

decide not to lend to borrowers in certain geographic areas regardless of their creditworthiness.

Market imperfections often arise when there is asymmetric information – lenders do not know nearly as much about a borrower's business prospects and likelihood of repayment as the actual borrower does. It is very difficult for LDC banks to distinguish good borrowers from bad borrowers.[9] As a result, banks may require substantial collateral and they may charge higher interest rates to offset this risk. Creditworthy borrowers may be denied credit because they are unable to meet such collateral requirements or pay such high interest rates.

Nobel laureate economist Joseph Stiglitz and Andrew Weiss have presented a compelling model of how credit rationing by banks, particularly in LDCs where the degree of asymmetric information is amplified, is likely to be pervasive and reflects a natural state of affairs in the loan market.[10] Their model notes that banks respond to the risks stemming from asymmetric information by charging higher interest rates, and this may create adverse selection and moral hazard. High interest rates relative to a banks' cost-of-funds are commonplace in LDCs (in Brazil lending spreads are above 50 percentage points a year on personal loans).[11] Many of the creditworthy borrowers are unwilling or unable to pay such a high interest rate, while the riskier borrowers are willing to incur a high interest rate (the risky borrowers think the high interest rate is a good deal but the creditworthy borrowers think it is a bad deal). If banks continuously raise their interest rates due to asymmetric information then they will increasingly suffer from adverse selection – the creditworthy borrowers will forego the loans and the bank will be left primarily with very risky borrowers, ultimately resulting in high default rates. Also, higher interest rates create moral hazard because the borrowers will have an incentive to undertake riskier activity in order to generate the higher revenues needed to repay the loan. The riskier activity will produce greater defaults. Therefore, banks will at some point choose not to increase interest rates despite excess demand for loans at such interest rate. Instead, banks will limit the amount that they lend and many creditworthy borrowers will not have access to loans. Banks may prefer a smaller, safer portfolio than a portfolio with higher interest rates.[12]

[9] The growth of microfinance institutions and other informal lenders is partly in response to barriers imposed by asymmetric information. These lenders often know their borrowers personally and are thus able to overcome asymmetric information barriers faced by more formal lenders who will not know the borrowers personally or have reliable credit records and income statements for the borrowers.

[10] Stiglitz, Joseph E. and Weiss, Andrew, 1981. "Credit Rationing in Markets with Imperfect Information." *The Amercian Economic Review.* 71(3): 393-410.

[11] The Economist. August 9, 2003a. "Brazilian Banks – Better ways to go bust," 60.

[12] Caprio, Gerard Jr. and Honohan, Patrick. 1991. *Excess Liquidity and Monetary Overhangs.* Policy Research Working Paper 796, Financial Policy and Systems, Country Economics Department. Washington, DC: The World Bank, 3.

Since market imperfections in LDCs are pervasive and may even arise naturally, LDC credit markets are delivering a sub-optimal allocation of funds – money sits with the bank in liquid assets rather than going to creditworthy borrowers who can put the money to more productive use. If market imperfections can be identified, then there is a sound basis for donor or government interventions that remedy these market failures and create a more efficient allocation of capital.

Additionality

Loan guarantees should be designed to stimulate new private investment rather than subsidize existing sources of capital. If a guaranteed loan would have been made regardless of the guarantee, the guarantee may simply reflect a subsidy to the lender and it does not stimulate any additional lending. The aggregate amount of lending with or without the guarantee is the same. "Additionality" arises when a loan is made that would not have otherwise been made but for the guarantee. If additionality is achieved then the aggregate amount of lending is increased and this can promote economic growth. So, efforts should be made to ensure loan guarantees result in additional lending.

Moral Hazard

Moral hazard arises when the presence of a guarantee induces reckless conduct by the guaranteed lender or borrower. Any guarantee should provide optimal incentives for the guaranteed lender and the borrower to act responsibly. With respect to the borrower, this means they must have incentives to operate productively and repay the loan. With respect to the lender, they must have incentives to carefully screen potential borrowers to make sure they are likely to repay the loan. Lenders also should have incentives to monitor each borrower's activities while the loan remains outstanding.

A complete guarantee of indebtedness can induce substantial moral hazard on the part of the lender and the borrower. The lender with a 100% guarantee has no incentive to monitor the borrower's activity or conduct due diligence on the borrower because it can rely entirely on the guarantor to get repaid (the guarantor is always a better credit risk than the borrower). The borrower might also be more inclined to default on a loan if it knows the bank will not care about a default due to the third-party guarantee. Such borrowers may become emboldened to take on riskier activities because of the lender's lack of oversight.

Numerous 100% or near 100% government guarantee schemes have resulted in excessive defaults, and the costs arising from such excessive defaults are ultimately borne by taxpayers.[13] This phenomenon is hardly new. As far back as the 19th century, complete government guarantees were introduced to stimulate private financing for railroad construction in the United States. The government guarantees of bonds issued by railroad promoters resulted in reckless conduct by borrowers, lack of oversight and diligence by bondholders, and a huge bill for the taxpayers due to a large number of defaults.[14] The guarantees weakened the incentive for bondholders to monitor the activities of the railroad promoters who were ostensibly using the proceeds from the bonds to pay for the construction costs associated with building new railroad lines. The promoters, recognizing the lack of scrutiny over their activities, diverted resources by negotiating sweetheart deals with affiliated construction contractors and effectively channeled vast sums to their own accounts. They also put money to unproductive use, building railway lines where there was not sufficient traffic to generate adequate revenues for servicing the debt. In many instances there were defaults on the bonds but the promoters made a fortune on the construction contracts, and the taxpayers were the ones who got stuck paying the bondholders.[15]

Sustainability – Demonstration Effect

Government or donor interventions in the form of loan guarantees that produce additional lending and minimize moral hazard can create a more efficient and productive allocation of capital. If loan guarantees also spark sustained lending to new sectors or new borrowers they can serve as a catalyst for the development of local credit markets. Partial loan guarantees can demonstrate to banks the profitability of lending to new types of borrowers while also encouraging banks to conduct sound due diligence and prudent oversight. The experience of profitable lending, coupled with enhanced internal risk-assessment and monitoring capabilities, can give banks a powerful economic incentive to continue making loans to new sectors and borrowers, regardless of the presence of guarantees. Since banks often behave in a herd-like manner, other banks may follow the lead of the original bank that lends to a traditionally

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[13] For a general discussion of past credit guarantee programs in LDCs, see Levistky, J. 1997. "Credit Guarantee Schemes for SMEs – an international review." *Small Enterprise Development*. 8(2), 4-17; and Meyer, R.L. and Nagarajan, G. 1996. *Evaluating Credit Guarantee Programs in Developing Countries*, Economics and Sociology Occasional Paper No. 2322. Columbus: Ohio State University.
[14] Eichengreen, Barry. 1996. "Financing Infrastructure in Developing Countries: Lessons from the Railway Age." In Mody, Ashoka, ed. 1996. *Infrastructure Delivery: Private Initiative and the Public Good*. Washington, DC: The World Bank.
[15] Ibid., 120.

credit-marginalized sector, resulting in the transformation of local credit markets and accelerated economic growth.

Overview of Loan Guarantee Programs

A wide variety of loan guarantee programs have been implemented around the world with different objectives. The objectives of guarantee schemes sometimes vary or are unclear.[16] Advancing economic growth is often an objective, but other considerations lead to additional objectives, such as augmenting credit to a politically influential sector or aiding groups that have traditionally been victims of discrimination. Many guarantee schemes suffered from moral hazard, a lack of additionality or excessive administrative costs and claims that rendered the guarantee program unsustainable.[17]

Features of USAID'S Development Credit Authority

USAID's Development Credit Authority (DCA) - the authority under which USAID can offer partial loan guarantees to private sector lenders - was established to help USAID finance development projects in a cost-effective manner and to foster private sector lending in LDCs.[18]

In designing a guarantee program there are many choices such as the degree of guarantee coverage, the targeted beneficiaries and sectors for the guarantees, the fees, and the links between the guarantee and other interventions. The objectives and resources of a guarantor will largely determine how these choices are made. The following discussion presents many of the choices USAID has made with respect to the structure of its DCA guarantees.[19]

Targeted Sectors

DCA partially guaranteed loans generally range in size from the local currency equivalent of $1 million to $20 million and have been made across a wide-range of sectors, including agriculture, energy, infrastructure, housing and health. Small and medium enterprises and microentreprenuers have also been frequent beneficiaries of DCA guarantees.

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[16] Meyer and Nagarajan 1996, 5.

[17] Ibid., 7, 9 and 11.

[18] Partial loan guarantees are cost-effective because they leverage private sector capital and resources. Also, under the U.S. Federal Credit Reform Act of 1990 the budget cost for a federal agency issuing a loan guarantee is based on the anticipated payout under the loan guarantee rather than the full contingent liability of the U.S Government. As a result, the budget cost for a partial loan guarantee for a project in an LDC generally ranges from 2% to 9% of the amount of the loan.

[19] This guarantee program is still very new and a detailed study of the impact of these guarantees is warranted once the program has a longer operating history.

Local Currency

DCA guarantees are primarily offered for local currency lending by private sector banks and non-bank financial institutions in LDCs. By offering guarantees of loans in domestic currencies USAID seeks to redirect some of the abundant capital held by banks in liquid assets towards productive private sector firms. Guarantees of local currency lending also minimize exchange rate risk. If a loan is denominated in the local currency and the borrower earns revenues in local currency, a significant depreciation in the local currency will not, by itself, impair the ability of the borrower to repay the loan.[20] Guarantees of dollar-denominated loans are generally prohibited unless the borrowers earn revenue in dollars rather than the local currency. Over the past decade the failure to minimize exchange rate risk has produced dramatic losses for international investors and sparked numerous economic crises in LDCs.

Market Imperfections and Additionality

Prior to USAID's internal approval of a DCA guarantee, the USAID internal operating unit requesting the guarantee must demonstrate to the satisfaction of an internal Credit Review Board that the guarantee seeks to address a market imperfection and will achieve additionality. Additionality is difficult to prove because it involves a counterfactual claim (if the guarantee was never offered, the loan would not have been made). DCA projects often involve loans to a sector (i.e., housing, energy or health) or a class of borrowers (i.e., small businesses or farmers) to which the lender has not previously extended credit, and this suggests that the lending is additional. In many instances the guarantees cover a portfolio of loans for the new sector or class of borrowers, and the guarantee helps induce the bank to initiate the new portfolio of loans. To ensure additionality modest fees are also charged to guaranteed lenders – presumably lenders would be reluctant to pay such fees if they are otherwise willing to make the same loan without a guarantee.

Moral Hazard and Capacity-Building

Choosing the level of guarantee coverage largely represents a trade-off between minimizing moral hazard and maximizing the ability of the guarantee to induce additional lending. Increasing the percentage of losses that are cov-

[20] An international guarantor still undertakes exchange rate risk on local currency loans with respect to the appreciation of the local currency against the U.S. Dollar, Euro or other relevant foreign currency. If the local currency appreciates against the U.S. Dollar then any default will result in a larger claim on USAID since USAID will use U.S. Dollars to purchase local currency to pay claims. To cap this risk USAID imposes a ceiling on the amount of U.S. Dollars it will use to purchase local currency to pay claims.

ered by the guarantee will reduce the risk-perception of the lender and thereby improve the prospects for additional lending, but it can also raise the likelihood of reckless conduct because the guarantor will bear most of the losses from defaults. Due to strong concerns about moral hazard, the level of coverage under USAID partial guarantees is limited to 50% of a lender's actual losses arising from a default (this is the defaulted amount less post-default recoveries from collateral or other assets of the borrower).

The terms of the USAID guarantee agreements require that the guaranteed lenders exercise reasonable collection efforts before making a claim under the guarantee.[21] The guarantee agreement often requires that the guaranteed lender write-off the loan or make a specific provision for possible loan losses before submitting a claim. At the point when actual losses are reflected on the bank's balance sheet, USAID is obligated to pay a claim and effectively share 50% of such losses with the lender. After receiving payment on a claim, a guaranteed lender is required to continue to pursue reasonable collection efforts and then reimburse USAID 50% of any recoveries, net of legal and administrative costs. The terms of the guarantee agreement ensure that the ultimate losses to USAID will never exceed the losses actually incurred by the guaranteed lender after taking into account any post-claim recoveries obtained from the borrower.

The 50% guarantee of actual losses ensures that the lender has equal or greater incentives than USAID to avoid borrower defaults and to exercise all reasonable measures to recover funds from the borrower following a default. Consequently, guaranteed lenders are likely to conduct sound due diligence on the borrower and to carefully monitor the guaranteed loans. This approach allows USAID to leverage the operational resources of the local lender as well as its financial resources. Although USAID conducts its own risk assessment to determine the level of internal reserves it needs to set aside to cover claims, it relies substantially on the complementary due diligence and ongoing loan portfolio monitoring of the local guaranteed lender. The limited internal costs to USAID for due diligence and administration of the guarantee are not passed on

[21] "Reasonable collection efforts" vary from country to country. Generally reasonable collection efforts do not require the guaranteed lender to complete judicial proceedings and obtain a final judgment against a defaulting borrower before submitting a claim under the guarantee agreement.

to the guaranteed lender. By leveraging the resources of USAID's private sector partner, the overall transaction costs are lowered.[22]

Technical Assistance and Policy Reform

USAID guarantees are often implemented after technical assistance or policy reform efforts have been introduced to help overcome market imperfections. Some technical assistance efforts have focused on overcoming the market imperfections that impede lending into creditworthy sectors by training local banks in understanding new market segments and target borrowers. Banker training also seeks to familiarize banks with more rigorous cash-flow analysis techniques and more advanced risk assessment, management, and loan monitoring techniques. The combination of banker training and a USAID guarantee is often used to facilitate lending to small enterprises. Technical assistance is also used to improve the financial record-keeping of businesses so that lenders can more readily understand their activities and assess the credit risk of lending to such businesses. The combination of USAID funded technical advisors working with firms to improve their financial record-keeping and a USAID guarantee on a portfolio of loans by a bank to these businesses can induce lending to borrowers that were previously denied credit.

USAID policy reform initiatives often try to establish a legal and regulatory environment that is conducive to greater private sector activity and increased domestic lending. Partial guarantees are frequently offered as a complement to these initiatives. For example, in Egypt USAID has worked closely with municipalities to allow for greater private sector participation in the delivery of infrastructure services. USAID helped enact legal reforms to allow utilities to charge reasonable user-fees for municipal infrastructure services and to hire private sector companies to deliver infrastructure services. To complement these reforms, USAID has recently offered partial guarantees on commercial loans to private companies hired by utilities to provide infrastructure services such as wastewater removal and repair of existing water pipes. The availability of DCA-backed loans can demonstrate that tariff reforms and laws and regulations that allow for private sector delivery of infrastructure services can yield a

[22] Many guarantee schemes have suffered because costs were too high from the duplication of efforts -both guarantor and lender performed substantial diligence and screening of borrowers. See Levitsky 1997. USAID avoids this problem by absorbing its own diligence and administrative costs and relying on the lender for additional diligence and monitoring efforts. It is generally much cheaper and more efficient for the domestic lender to perform diligence than a foreign guarantor. Foreign guarantors will confront greater asymmetric information because of their lack of familiarity with local business conditions and the quality of potential borrowers. Greater distance from borrowers also necessitates much higher costs for loan monitoring and diligence efforts.

lower-cost and more effective provision of water and sanitation services. Such positive results provide further impetus for municipalities to continue on the reform path.

Fees

Almost all guarantee programs have imposed fees on the guaranteed lenders. If guarantee programs charge high fees they will reduce their ability to encourage banks to enter new sectors or extend loans to new types of borrowers. The cost of the fee coupled with the riskiness of the new form of lending may be too much for a lender to endure. However, if a guarantee program charges very low fees (or no fees at all) the program may have difficulty accumulating enough fees to keep it operational. USAID charges an upfront commitment fee and an annual utilization fee for its DCA guarantees. These fees are set below a cost-recovery level, so in the aggregate USAID expects to pay claims in excess of the fees it accumulates. Annual appropriations from the U.S. Congress are used to cover this expected shortfall as well as the administrative costs associated with the guarantee program.

Impact of DCA Guarantees and Array of DCA Products

Impact of partial guarantees on the terms and conditions of the loan

Generally a partial loan guarantee reduces a lender's perceived level of risk for new types of loans. The guarantee lowers the lender's potential loss from defaults. Also, guarantees from a triple-A rated guarantor enable banks to lower the reserves they need to set aside for a loan, and this allows them to earn a greater return on equity. Lenders may agree to different terms and conditions for a loan due to the presence of a partial guarantee. The provision of the guarantee can reduce the lender's collateral requirements and thereby enable businesses or entrepreneurs that lack substantial collateral to obtain loans. The guarantee can also cause the lender to offer a longer repayment period for the loan which enables borrowers to make costly investments in equipment, technology or infrastructure that enhance productivity. Without a long repayment period, borrowers will not have enough time to generate sufficient revenue from costly investments to repay loans.

DCA Products

DCA guarantees are generally offered through four different products – *loan guarantees, bond guarantees, loan portfolio guarantees and portable commitment guarantees.*

Loan Guarantees cover 50% of the risk on an individual loan from a lender to a pre-determined borrower. The purpose of the loan and the use of proceeds are set forth in both the loan guarantee agreement between USAID and the lender and a separate agreement between USAID and the borrower.

Bond guarantees cover 50% of the risk to bondholders. The guarantee agreement is generally entered into between USAID and the trustee or agent for the bondholders. The trustee is responsible for pursing collections on behalf of the bondholders following a default. The identity of the borrower (often called the bond "issuer") is known in advance, and USAID will have an agreement with the bond issuer setting forth the permitted use of proceeds.

Loan Portfolio Guarantees cover 50% of the risk to a lender from a portfolio of loans that it plans to make to "eligible borrowers" who satisfy certain predetermined criteria. The identity of the borrowers is not known at the time the loan guarantee agreement is signed. For example, USAID may guarantee a portfolio of loans by a bank to small businesses operating in a certain region to which the lender has not previously extended credit.

The *Portable Commitment Guarantee* is a commitment letter between USAID and a prospective borrower. The letter indicates the terms upon which USAID will guarantee a loan to such borrower. Often the prospective borrower has been unable to engage banks in serious discussions about a loan, and the letter helps them "open the door" to the banks and get a full hearing for their business plan. Once the prospective borrower is able to find a committed lender, USAID enters into a guarantee agreement with the lender.

Potential Impact of Loan Guarantees on Key Sectors

Several types of businesses and sectors in LDCs that can play a significant role in economic growth or poverty reduction but have traditionally suffered from a lack of access to credit are small and medium enterprises (SMEs), microenterprises, housing and infrastructure. They can each benefit immeasurably from more robust local credit markets. By reducing risk-perception, lowering collateral requirements, and extending loan repayment periods, partial loan guarantees have the potential to increase the amount of credit provided for SMEs, microenterprises, housing and infrastructure. A detailed description of the potential impact of partial loan guarantees on each of these four groups is presented on the following pages.

Small and Medium Enterprises

A primary engine for growth and a major source of employment are small and medium size enterprises (SMEs). Despite the immense role of the SME sector in the overall economy of LDCs, the growth of this sector is severely curtailed by a lack of access to finance.

The availability of credit has been identified in many business surveys as the most important factor determining whether SMEs survive and prosper.[23] The ability to borrow allows SMEs to make productive investments and purchase new technology that will enable them to grow their businesses.[24] Unlike large companies, SMEs in developing countries only finance a modest portion of their investment through debt financing and they are forced to rely on retained earnings and financial support from family and friends to launch or grow their business. Even when debt financing is available to SMEs, the maturities of the loans are often too short to allow for SMEs to finance sizable investments that take years to repay.

There are several reasons for the SME financing deficit. From the perspective of banks and other financial intermediaries, the main barriers to SME lending are high risk perception, asymmetric information, lack of collateral and high administrative costs.[25] High risk perception with SMEs stems from a number of factors such as lack of demonstrated profits over a long term, inadequate collateral and traditional prejudices based on race, ethnicity or geography. Asymmetric information is extensive because SMEs generally do not have a well-documented credit history with years of audited financial statements and reliable financial reporting.[26] High administrative costs arise because banks often lack experience in servicing SME borrowers, and due to the small amounts of each loan the aggregate costs of information-gathering, due diligence, loan processing, and ongoing monitoring are much higher per dollar loaned than for loans to large corporate borrowers.

As a result of asymmetric information and high risk perceptions, banks primarily conduct collateral-based lending rather than cash-flow analysis when

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[23] United Nations Conference on Trade and Development. 2001. "Improving the Competitiveness of SMEs in Developing Countries: The Role of Finance to Enhance Enterprise Development." UNCTAD/ITE/TEB/Misc.3. Geneva, 3.
[24] Ibid., 3.
[25] Green, Anke. 2003. *Credit Guarantee Schemes for Small Enterprises: An Effective Instrument to Promote Private Sector-Led Growth?* SME Technical Working Paper No. 10. Vienna: United Nations Industrial Development Organization.
[26] Many prospective borrowers maintain multiple sets of books and opaque accounting standards.

working with SME borrowers. Collateral requirements often exceed 150% of the value of the loan - this is an insurmountable threshold for many potential borrowers.[27] This problem is magnified by the fact that many small business owners, entrepreneurs or farmers in LDCs are unable to pledge their home or land as collateral because they lack valid legal title to it.[28] In Africa, "less than 10% of the continent's land is formally owned, and barely one African in ten lives in a house with title deeds."[29] In contrast, in developed countries the primary source of collateral offered to obtain a start-up loan for a new business is a pledge on the business owner's home and land.

Partial loan guarantees can help overcome some of the barriers to credit for SMEs. The primary tangible impact of a partial loan guarantee is a lowering of the collateral requirement, and this alone can enable more SME borrowers to gain access to credit. After repaying a partially guaranteed loan SMEs will have positive credit histories. Such credit histories will help reduce asymmetric information and can reduce the high-risk perception of banks. Bank relationships with clients "are a principal channel for acquiring information" and a borrower's "improved cash flow probably signals a healthier balance sheet and thus also serves to trigger increased lending and perhaps a lower cost of funds [for the borrower]."[30]

Partial loan guarantees can also encourage banks to provide longer term loans. The longer repayment period allows SMEs to make larger investments in new equipment and technology that can boost productivity and enable businesses to expand.

Micro-Enterprises

Over the past 20 years microfinance institutions (MFIs) have proliferated throughout developing countries, extending credit to over 50 million poor people and helping lift many of them out of poverty. MFIs generally provide small loans and other financial services to poor, self-employed entrepreneurs. Frequently microfinance loans serve as working capital and no formal collateral is required from borrowers, but collateral substitutes such as group guarantees

[27] Green 2003, 12 and 13 and Leeds, Roger S. 2003. *Financing Small Enterprises in Developing Nations*. New York: Transnational Publishers, Inc., xvii.
[28] For a discussion of the importance of land-titling in LDCs as a way to unlock "dead capital" and provide economic opportunity for the poor, see de Soto, Hernando. 2000. *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*. New York: Basic Books.
[29] The Economist. January 17, 2004. "Survey: How to make Africa smile -, a survey of sub-Saharan Africa," Special Section 6.
[30] Caprio and Honohan 1991, 5.

are prevalent. Default rates on microenterprise loans have been very low, and the profitability of MFIs has dispelled the myth that the poor are bad credit risks.

The microfinance industry has been growing at an estimated rate of 20% per year. Nevertheless, the demand for microfinance loans far exceeds the capacity of MFIs to reach all potential borrowers. Most MFIs were created as non-profit organizations and they have relied heavily on donor funding. The available supply of donor funding to finance continued growth in the microfinance sector is limited, and MFIs have been unable to leverage substantial debt or equity from non-donor sources. If MFIs are to maintain continued growth, they will need to access funding from commercial sources, such as local commercial banks and bond markets. The process of "commercialization" of MFIs has proven challenging and hardly any of the over 2000 MFIs have achieved sustained financing from commercial sources.

Local commercial banks and other private investors are reluctant to finance MFIs despite their successful track-record and the low default rates on their loans. Banks are reluctant to lend to MFIs because of high risk-perceptions, lack of collateral, and a lack of demonstrated profits over an extended period of time. By lowering risk-perceptions, partial loan guarantees can help induce commercial lenders to extend credit to MFIs for the first time. If these loans prove profitable, private lenders will be more inclined to fund MFIs on an ongoing basis. The repayment record of the MFIs will constitute valuable credit history, and commercial lenders will also learn more about assessing risk and conducting due diligence on MFIs through the process of making loans.

A number of recent USAID partial guarantees have created initial linkages between top-tier MFIs and private lenders, including the first bond-offering by an MFI in Peru and the first commercial bank loans to several prominent MFIs in Morocco, Colombia, Uganda and South Africa. In many instances USAID grant-funded technical assistance helped these MFIs improve their transparency and financial record-keeping, making it easier for commercial banks to assess the risk from extending credit to them. The combination of technical assistance and partial guarantees enabled these MFIs to tap commercial sources of credit for the first time.

Housing

Housing finance plays a crucial role in the economies of developed countries. Mortgage loans constitute the most sizable form of credit for most individuals, and a large percentage of adults in developed countries have home mortgages. In the U.S. alone, the mortgage market is several trillion dollars, exceeding the size of the markets for U.S. corporate bonds and U.S. Government bonds.[31] The widespread availability of housing finance fuels economic growth and spurs the construction of new homes which creates jobs. Housing finance provides important non-economic benefits as well, such as greater social cohesion and strengthened communities as a result of increased homeownership.

In LDCs the demand for housing finance is substantial, but most individuals cannot obtain a loan for the purchase of a home.[32] There is widespread credit rationing. Banks often ration housing credit by raising down payments to very high levels (40% is often the norm in transition economies),[33] thereby excluding a high percentage of low and middle-income individuals from obtaining a mortgage loan. Many potential borrowers do not have the funds for the minimum down payment. Two of the primary reasons why banks in LDCs ration housing credit are:

i) banks have little confidence that they can sell a house following a borrower's default; and
ii) banks do not have reasonable assurances of a borrower's level of future annual income, so they do not have a good sense of the likelihood of a default.[34]

Addressing the root causes for the scarcity of housing finance requires legal and regulatory reform that allows lenders to easily enforce contracts and foreclose on collateral in a timely and cost-effective manner. In addition, land-titling is needed so that more potential borrowers have valid legal title to their land and can use it as collateral for home improvement loans.[35] Asymmetric information poses another hurdle to housing credit because it is difficult for lenders in LDCs to estimate a borrower's income due to the large informal sector and the lack of credit bureaus.[36] In the U.S., mortgage lenders scrutinize W-2 annual wage statements, income tax returns and detailed credit reports to assess a borrower's income and likelihood of repayment. In contrast, lenders in LDCs lack reliable information about a borrower's annual income and credit history.

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[31] Jaffee, Dwight and Renaud, Bertrand. 1996. *Strategies to Develop Mortgage Markets in Transition Economies*. World Bank Policy Research Working Paper 1697. Washington, DC, 3.
[32] Ibid., 9.
[33] Buckley, et al. 2003. *Comparing Mortgage Credit Risk Policies: And Options-Based Approach.* World Bank Policy Research Working Paper 3047. Washington, DC, 1.
[34] Jaffee and Renaud 1996 and Buckley, et al 2003.
[35] De Soto 2003.
[36] Jaffee and Renaud 1996, 9.

Regardless of the pace of reforms to address the underlying causes for the lack of housing credit, lenders will need to overcome the high risk-perception they associate with housing loans in order for increased credit to flow into the housing sector. Partial loan guarantees can help reduce this risk-perception and expand the provision of credit for housing finance. Similar to high collateral requirements for SME borrowers, high down payments of 40% or more effectively exclude creditworthy borrowers from access to finance for housing loans. A partial loan guarantee can lead to a reduced down payment requirement, thereby enabling credit to flow to new borrowers.

There is high demand for home improvement loans among poor people in developing countries because they often build incrementally rather than purchase new homes. Lenders have been reluctant to extend credit to the poor for home improvement loans. Partial guarantees can reduce barriers to entry for this new type of lending as well. If recipients of mortgage loans or home improvement loans succeed in making monthly loan repayments they will have developed valuable credit histories with their lenders. This makes it easier for them to get loans in the future.

Another important potential benefit from partial guarantees of housing loans is a lengthened repayment period. Borrowers often need long periods of time to repay housing loans and prefer loans with a long repayment period. The 30-year mortgage loan is rare outside the U.S., and in most developing countries mortgage loans have a very short repayment period (usually 5 years or less). The situation in many LDCs resembles the condition of the housing market in the U.S. in the 1930s – down payments were 40% or higher and mortgage loans were for 5 years or less. By inducing banks to offer longer repayment periods, partial loan guarantees can enable more borrowers to have sufficient time to repay housing loans.

For example, USAID's recent experience with a partial guarantee in Romania resulted in an extended repayment period for mortgage loans. USAID helped establish the first non-bank mortgage lender in Romania, Domenia Credit.[37] USAID covered some of the start-up and operational costs for Domenia Credit while also working on legislative and policy reforms to improve foreclosure and land registration procedures. In addition, USAID provided a partial guarantee of a 10-year loan to Domenia Credit (long-term by Romanian standards) and this has enabled them to establish a sizable portfolio of mortgage loans ranging from 5 to 10 years.

[37] Domenia Credit was created by the Romanian American Enterprise Fund (RAEF). RAEF was established with a grant from USAID. In addition to RAEF, there are several international investors that have made equity investments in Domenia Credit.

The housing finance experience of the U.S. suggests that government guarantees can be particularly beneficial. The U.S. 30-year mortgage market was largely created by credit enhancements in the form of U.S. Government guarantees. Lenders were not initially willing to make 30-year loans, but guarantees from the Federal Housing Association (which were backed by the full faith and credit of the U.S. Government) helped entice lenders into extending 30-year credit. Over time, the U.S. Government guarantee has been withdrawn for most 30-year mortgages but the demand from lenders and capital market investors for such 30-year mortgages has continued and expanded, and a highly liquid secondary market has developed.[38] This has helped drive down the cost of mortgages for millions of homeowners.

Infrastructure

In countries that lack adequate electric power, telecommunications, roads, railways, water supply, sanitation and sewerage, it is much harder for private enterprises to prosper. The costs of producing and transporting goods or delivering services rise substantially due to deficient infrastructure. These increased costs make companies less competitive and efficient. They also result in higher costs to consumers which in turn decreases demand and is harmful for growth. Enormous investments in the infrastructure of LDCs are needed. One recent study estimated the demand for new investments in infrastructure in developing countries between 2005 and 2010 will be approximately $233 billion and maintenance requirements for existing infrastructure during this period will be roughly $231 billion.[39]

The deficient infrastructure in LDCs coupled with the rapid growth of the urban population makes the need for infrastructure improvements all the more pressing. Traditionally, national governments had primary responsibility for infrastructure, but increasingly this responsibility is being transferred to municipalities. Municipalities cannot meet these vast infrastructure needs solely from expenditure of their limited funds – they need private sector participation in the financing, building and maintenance of infrastructure projects and the delivery of infrastructure services. If municipalities charge user-fees on a cost-recovery basis for infrastructure services (such as electricity, water, sanitation, or the use of roads) they can generate a revenue stream that will allow them to repay loans that help finance their infrastructure investments. The introduction of user-fees that are set on a cost-recovery basis can attract sustainable private sector financing.

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[38] See generally Lea, Michael. 1996. "Innovation and the Cost of Mortgage Credit: A Historical Perspective." *Housing Policy Debate.* 7(1): 147-174.

[39] Fay, Marianne and Yepes, Tito. 2003. *Investing in Infrastructure: What is needed from 2000 to 2010?* World Bank Policy Research Working Paper 3102. Washington, DC.

Infrastructure finance generally requires long-term lending, preferably in the local currency to avoid currency depreciation risk. Unfortunately, the local capital markets in most LDCs generally do not offer long-term lending and many municipalities or private sector developers of infrastructure are unable to obtain any financing from local credit markets. For example, a report on infrastructure in India noted that "a true local credit market is essential for India meeting its infrastructure investment objectives" but local credit markets are currently very limited and can only supply a small amount of the billions in public investment which will be needed in coming years.[40]

The absence of long-term lending in local currency creates a huge financing gap for infrastructure in LDCs. The bond market generally offers longer-term financing than the bank market because bondholders (primarily pension funds and insurance companies) have longer-term liabilities which they seek to match with assets, such as bonds, that generate a steady stream of income over a longer-period of time. These bondholders are often required by law to hold a large percentage of their assets in safe bonds or other securities that have received an investment grade rating from a reputable rating agency. A major challenge for infrastructure finance in LDCs is developing projects that can receive investment-grade ratings and thus take advantage of the full range of potential bond investors.

Partial guarantees provide a credit enhancement to a bond offering that can result in a higher credit rating from the rating agency.[41] The higher rating helps reduce the risk-perception of potential bondholders and enables a wider class of investors to purchase the bonds. The provision of the partial guarantee can also spur the bond investors to agree to a longer term for repayment. Longer repayment schedules allow for bond repayments to be more consistent with the time-horizon for generating revenues from the underlying infrastructure investment.

For example, in a recent bond-offering in India to finance municipal infrastructure investments in water and sanitation systems, the USAID 50% guarantee, together with additional credit enhancements from the national and state governments, helped produce an investment-grade rating and a 15-year maturity on the bonds. This is an unusually long repayment period for an LDC infrastructure project and exceeded the term of previous municipal bonds in India by several years. The lengthened repayment period provides significant time for user-fees to accumulate that can service the debt. The partial guarantee

[40] Peterson, George. 2000. *Building Local Credit Systems*. UNDP/UNCHS/World Bank, 2, citing National Council of applied Economic Research. 1997. *The India Infrastructure Report*. New Delhi.

[41] The impact of a partial guarantee on the credit rating for a bond will depend on the nature of the guarantee. Guarantees that cover some "first loss" risk, such as the initial default on an interest payment under a bond, can provide a greater boost to the overall credit rating.

also complemented USAID technical assistance and policy reform efforts that laid the groundwork for the bond offering by improving municipal accounting standards and allowing for cost-recovery tariffs.

Conclusion

The increased use of partial loan guarantees by USAID and other donors largely reflects the recognition that harnessing the energy and resources of the private sector is essential for development and that robust domestic credit markets can fuel sustained economic growth.

Partial loan guarantees can be a mechanism for unlocking some of the liquidity within the banking system in LDCs and allocating this capital to productive enterprises. Loan guarantees reduce the high risk-perception of banks and can lead to lower collateral requirements or longer repayment periods. This facilitates the provision of credit to new sectors and/or new types of borrowers.

There are many root causes for the lack of credit in LDCs, and loan guarantees should not be viewed as a substitute for other efforts such as legal and regulatory reform that address some of these root causes. Rather, loan guarantees are an additional tool for building robust credit markets, and they will prove more effective when implemented together with technical assistance or policy reform that alleviates barriers to credit. In order to spur growth, loan guarantee programs should seek to induce additional lending while also minimizing moral hazard. Guarantees that demonstrate the profitability of new forms of lending and spark sustained lending to new sectors or borrowers can serve as a catalyst for the development of local credit markets.

Perhaps the most significant potential contribution of partial loan guarantees to economic growth is inducing financial innovation and new types of financings that are profitable and easily replicated. Partial guarantees can contribute to innovations in LDC financial markets by helping develop non-sovereign bond markets that provide long-term financing for infrastructure and housing. Partial guarantees can also help introduce commercial lenders to the microfinance sector and stimulate heightened levels of credit to SMEs. In more mature LDC financial markets, there are opportunities for partial guarantees to help introduce new financial technologies such as secondary debt markets. Guarantees can also promote structured finance techniques such as securitizations or credit default swaps that lower the cost of capital and diversify risk. If partial guarantees help introduce some of these innovations and trigger the widespread use of new types of lending, they can contribute immensely to the transformation of credit markets in LDCs.

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DCA Glossary

Development Credit Authority
Consolidated Glossary of Terms

Action Package
The Action Package is the document presented to the CRB for CFO approval of a DCA guarantee. It includes a Memorandum signed by the Mission Director and the CFO. The attachments include the Activity Description, Economic Viability Analysis, Financial Viability Analysis, Risk Assessment, Monitoring Plan, and Fee Justification.

Amortization Schedule
Also Repayment Schedule, shows how a loan or bond is paid over the term or life of the loan/bond.

Bond
A debt instrument that is often used to finance infrastructure projects. A bond's primary advantages versus a loan is its ability to access capital market investors (e.g., pension funds), and its lack of dependence on one commercial bank.

CAMELS Analysis
A type of credit risk analysis developed by U.S. financial regulatory agencies and widely accepted by banks and financial institutions to evaluate six traditional factors considered to be most important in the operation of a financial institution - Capital adequacy (C); Asset quality (A); Management (M); Earnings (E); and Liquidity (L); and Sensitivity (S) to market factors.

Claim
The amount that USAID is requested to pay by a lender following a loan default. This is typically up to 50% of the outstanding amount of principal (and in some limited cases interest) less any recoveries received by the lender prior to the claim approval.

Credit Review Board (CRB)
The Credit Review Board (CRB) includes representatives from the USAID credit programs, General Counsel, regional bureaus, and the financial loan management divisions. The CRB recommends the subsidy cost of each proposed DCA activity for the USAID Chief Financial Officer's final approval. The CRB also recommends policies and procedures designed to assure the financial soundness of all USAID credit activities, including DCA.

Days in Arrears
The number of days that a loan recipient is late in paying either principal or interest repayments.

Developmental / Development Feasibility Analysis
Along with the Economic and Financial Viability analyses, DCA projects must be characterized by development objectives aligned with the strategic objectives of a particular USAID Mission / Bureau. This analysis is completed during the project design phase and is included in the initial concept paper and Action Memorandum.

Discounted Cash Flows (DCF)
A financial analysis tool that projects future cash inflows and outflows and considers the time value of money, reducing all future cash flows to their present value based on interest rates for similar transactions.

Economic Viability Analysis
In addition to the Developmental and Financial Viability analyses, Economic Viability indicates that a proposed DCA activity addresses a market imperfection, and that USAID's financing support role is as a "lender of last resort."

Financial Viability Analysis
The third analysis that a DCA activity must pass (see also Developmental and Economic Viability Analysis) ensures that the activity earns, or is projected to earn, sufficient income to cover operating costs, loan payments, and reserves.

Guarantee Ceiling
The maximum contingent liability, or amount that USAID would pay out in claims to a guaranteed party. The guarantee ceiling is equal to the Guarantee Percentage x the Maximum Authorized Amount.

Inter-Agency Country Risk Assessment System (ICRAS)
A sovereign creditworthiness rating schedule which classifies risk levels, developed by U.S. financial regulatory institutions, the Export-Import Bank of the U.S., USAID, and the U.S. Department of State.

Internal Rate of Return (IRR)
The interest (discount) rate at which the present value of an investment in a project is zero. When this IRR exceeds the prevailing interest rate, the project is deemed to be an attractive investment.

Loan (Direct Loan)
A direct loan is a contract to provide U.S. Government money to a borrower. This differs from a grant in that the borrower agrees to repay the U.S. Government both principal and interest at predetermined rates and intervals over a fixed period of time.

Loan Guarantee (LG)
A loan guarantee is a contract between the U.S. Government and a lender (usually a financial institution) whereby the U.S. Government assures repayment to the lender in the case of default by the borrower. The U.S. Government will only disburse funds to the lender if, and when, a borrower is unable or unwilling to repay the underlying loan.

Loan Portfolio Guarantee (LPG)
A loan portfolio guarantee is a mechanism for sharing risk and financing multiple borrowers. Instead of the repayment risk of one borrower, the repayment risk is spread among a number of similar borrowers. A local intermediary financial institution (lender) establishes a pool of loan funds with credit and underwriting standards to be met by multiple borrowers.

Risk Assessment
A risk assessment involves analyzing the financial, economic, market, and political aspects of a transaction to determine the probability of a loan default. Usually this will include the creditworthiness of the borrower and the intermediary (where applicable), country macroeconomic issues, the structure of the transaction, and the presence of risk mitigating factors. These are summarized in the WARF score.

Sovereign Risk
Risk undertaken or backed by the full faith and credit of a sovereign nation.

Subsidy Cost
Loan guarantee subsidy cost means the estimated long-term cost to the Government of a loan guarantee, calculated on a net present value basis, excluding administrative costs that is paid by the Mission for a guarantee. It is useful to think of the credit subsidy cost as a type of loan loss reserve in the case of default, or as a type of insurance premium that is paid whether or not an event occurs. More specifically, the cost of a loan guarantee is the net present value, at the time when the guaranteed loan is disbursed by the lender, of the following estimated cash flows:

-Payments by the US Government to cover defaults and delinquencies, interest subsidies, and other requirements; and

-Payments to the US Government, including origination and utilization fees, penalties, and recoveries.

Subsidy Mitigation
Certain risk elements can be either reduced or eliminated depending on the credit agreement. Examples of subsidy mitigation include pledged collateral, escrow accounts, and counter guarantees.

Term Loan vs. Line of Credit
A term loan is a promissory note to repay a borrowed amount (principal) with interest. A line of credit, or overdraft, is an agreement between a bank and a customer for short-term borrowings on demand. The line is typically stated as a maximum amount that cannot be exceeded. Principal balances on lines of credit can fluctuate up and down during the term of the line of credit, while typically term loans have declining balances.

Weighted Average Risk Factor (WARF)
The WARF scoring of a DCA project represents the overall estimated credit risk of the project based on an ordinal scale of 1 to 5. The four risk categories included in the WARF are: country risk, lender risk, borrower risk, and transaction risk. Higher WARF scores denote higher credit risk.

TAB 3: GUARANTEE STRUCTURES
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Chemonics International Inc., 1133 20th St. NW, Washington, DC 20036
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Presentation: DCA Guarantee Structures

DCA Guarantee Structures

DCA Seminar
July 14, 2005

Chemonics International

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DCA – 4 Flexible Structures

DCA's flexibility allows structuring to enhance (guarantee) credit in a broad variety of situations and environments:

- **Loan Portfolio Guarantee**
- **Loan Guarantee**
- **Portable Loan Guarantee**
- **Bond Guarantee**

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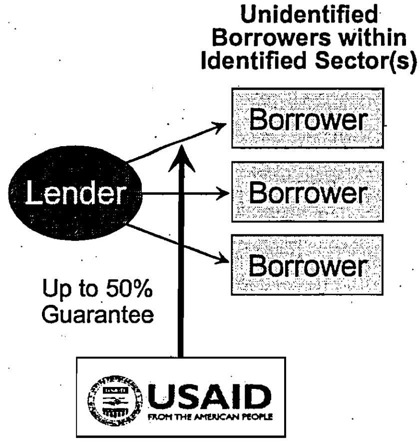
Loan Portfolio Guarantee

- Provides up to 50% guarantee on principal for a series of loans to unknown qualifying borrowers.
- Lender(s) identified.
- Mission and Lender(s) use definition of "qualifying borrowers" in guarantee legal agreement.



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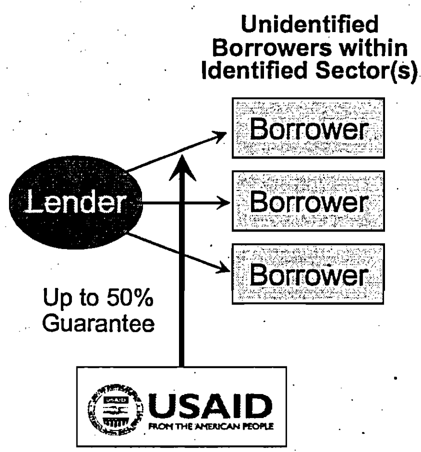
Loan Portfolio Guarantee

- **Jordan**
- **Type:** Loan Portfolio Guarantee
- **Amount:** $5,000,000 (Jordanian Dinar equivalent)
- **Purpose:** Provides a financial institution with a guarantee on multiple loans made to SMEs in all sectors in all geographic areas.



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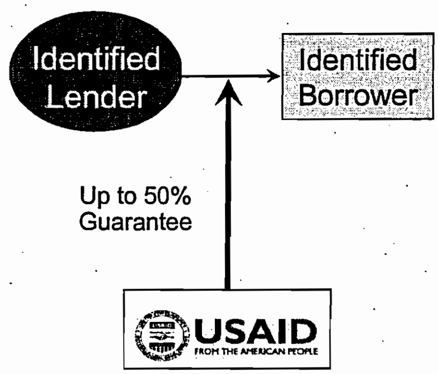
Loan Guarantee

- Provides up to 50% guarantee on principal for a loan to a single borrower.
- Borrower identified.
- Lender identified.



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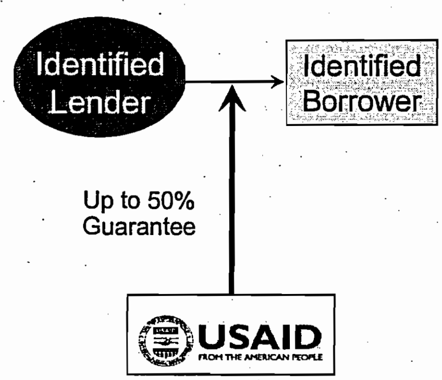
Loan Guarantee

- **South Africa**
- **Type:** Loan Guarantee
- **Amount:** $4,800,000 (SA Rand equivalent)
- **Purpose:** Provides a financial institution with a guarantee for a construction loan to a private company building mixed use housing / retail space in inner-city Joburg open to all socio-economic brackets.



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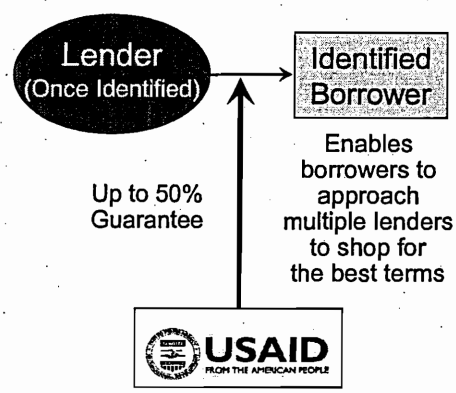
Portable Guarantee

- Provides up to 50% guarantee on loan principal.
- Borrower identified.
- Borrower shops for best loan terms.
- Lender must meet minimum requirements – rating or CAMELS.



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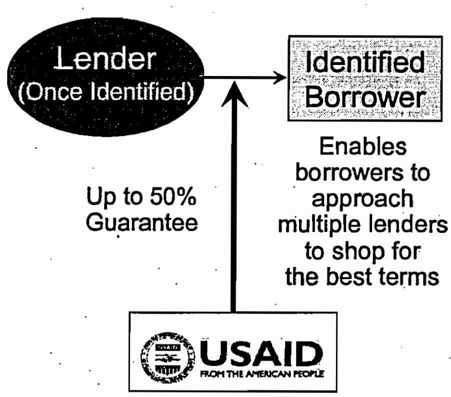
Portable Guarantee

- **Morocco**
- **Type:** Portable Guarantee
- **Amount:** $1,000,000 (Moroccan Dirham equivalent)
- **Guarantee Ceiling:** $500,000
- **Purpose:** Increase an MFI's capital, enabling it to provide additional financing to micro-enterprises in Morocco. The MFI can select from any lender with a minimum credit rating.



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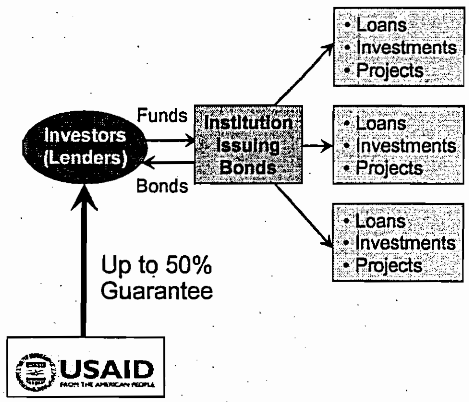
Bond Guarantee

- Provides up to 50% guarantee on principal to bond purchasers.
- DCA strengthens the rating of bond issue.
- Stronger development impact – core Mission SOs + strengthened capital markets.



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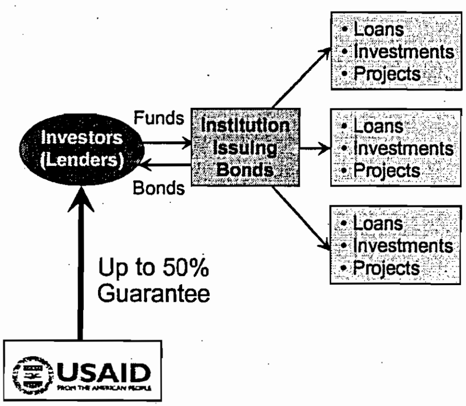
Bond Guarantee

- **India**
- **Type:** Bond Guarantee
- **Amount:** $6,400,000 (Indian Rupee equivalent)
- **Purpose:** Provides a partial bond guarantee for a pooled funding vehicle to finance water infrastructure projects in 7 small municipalities.



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Possible DCA Partner Lenders

DCA Partner Lenders can be non-sovereign financial institutions and credit providers, including:

- **Commercial Banks**
- **Non-bank Financial Institutions – NGO Microfinance Institutions, Savings Houses, Finance Companies, Mortgage Lenders, Leasing Companies**
- **Institutional Investors: Pension Funds, Insurance Companies**
- **Investment Funds**
- **Savings & Credit Cooperatives (SACCOs) and Farmers Coops**
- **Credit Unions**
- **Value chain actors offering credit (suppliers, purchasers)**

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Possible DCA Borrowers

DCA Borrowers can be non-sovereign:

- MSMEs or large private companies in sectors with limited access to credit
- Farmers through the value chain to Agro-processors and Exporters
- Municipalities or Local Governments
- Financial institutions that also could be lenders
- Private utility providers – water, energy, etc.
- Real estate developers or low-income apartment buyers
- Multinational social investment funds

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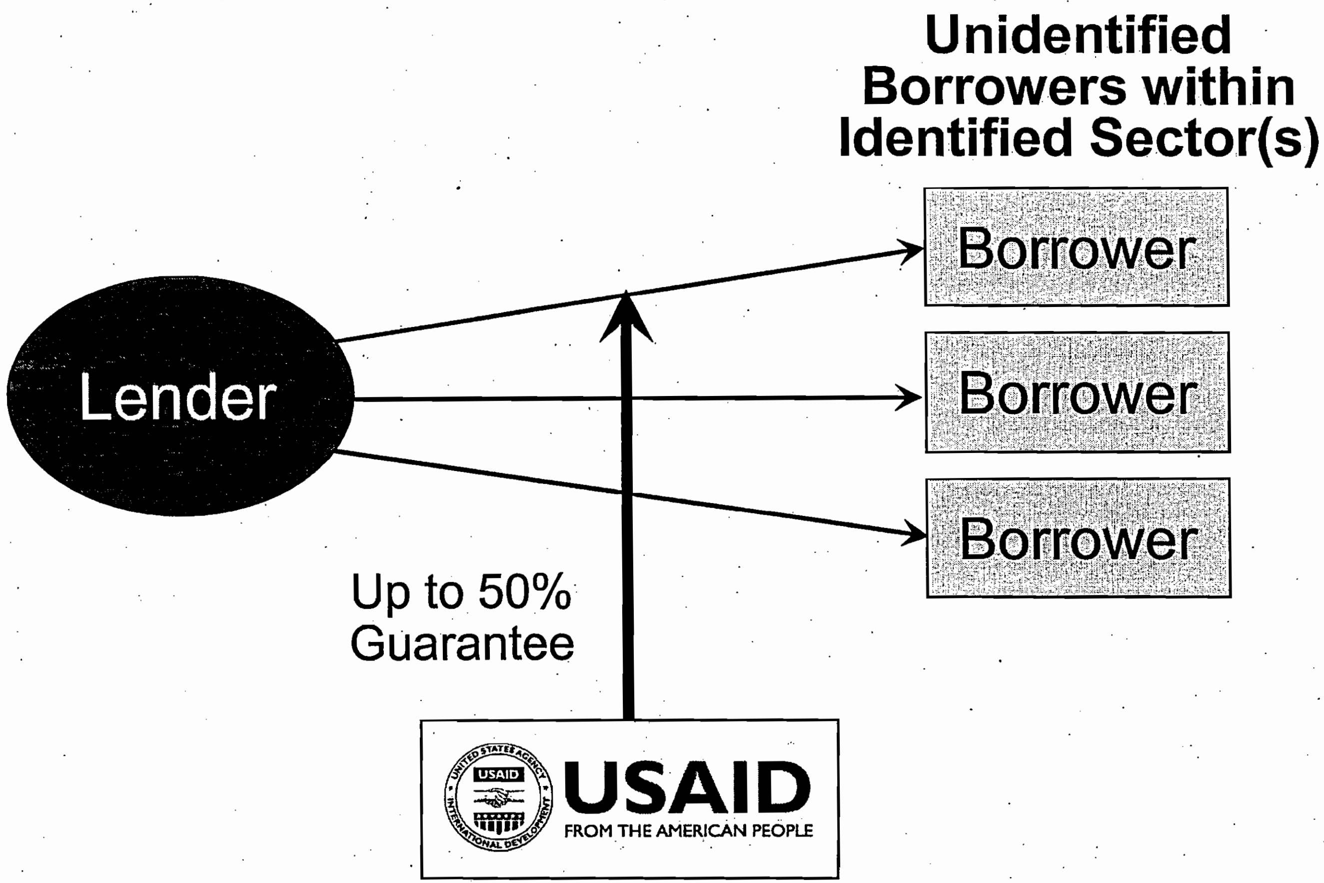
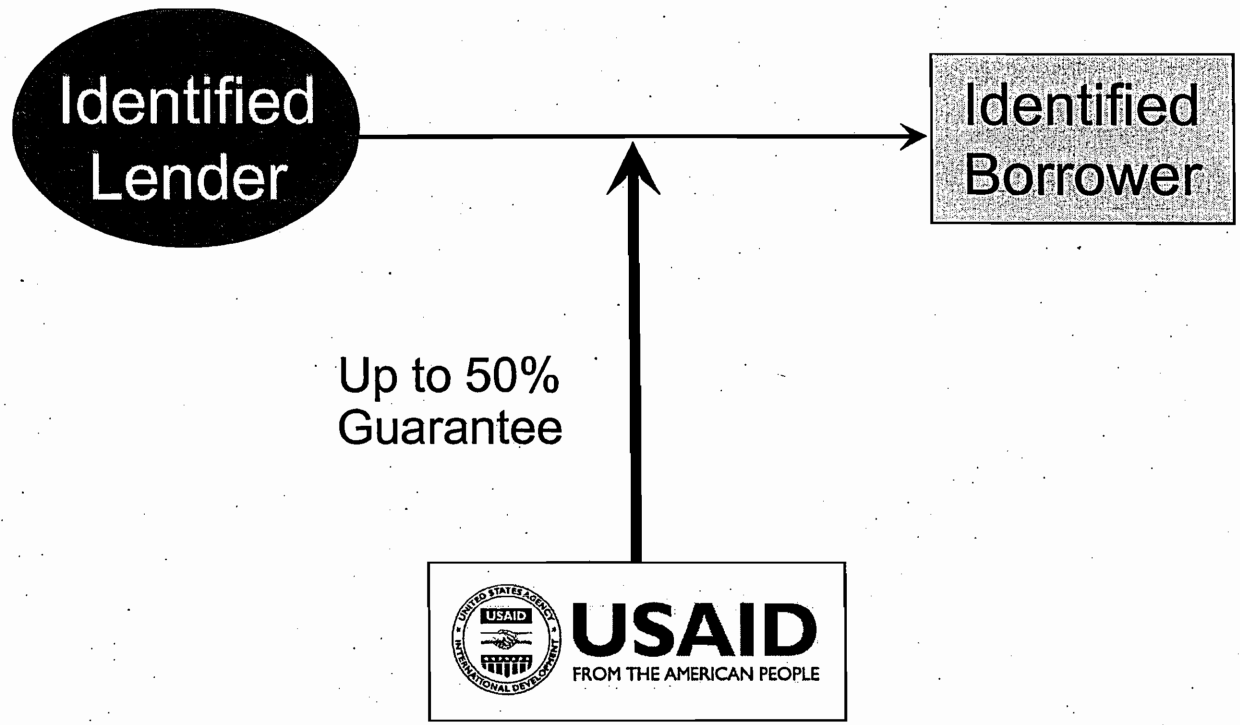
Separate PowerPoint Slides:

- Loan Portfolio Guarantee (LPG)
- Loan Guarantee (LG)
- Portable Guarantee (PG)
- Bond Guarantee (BG)

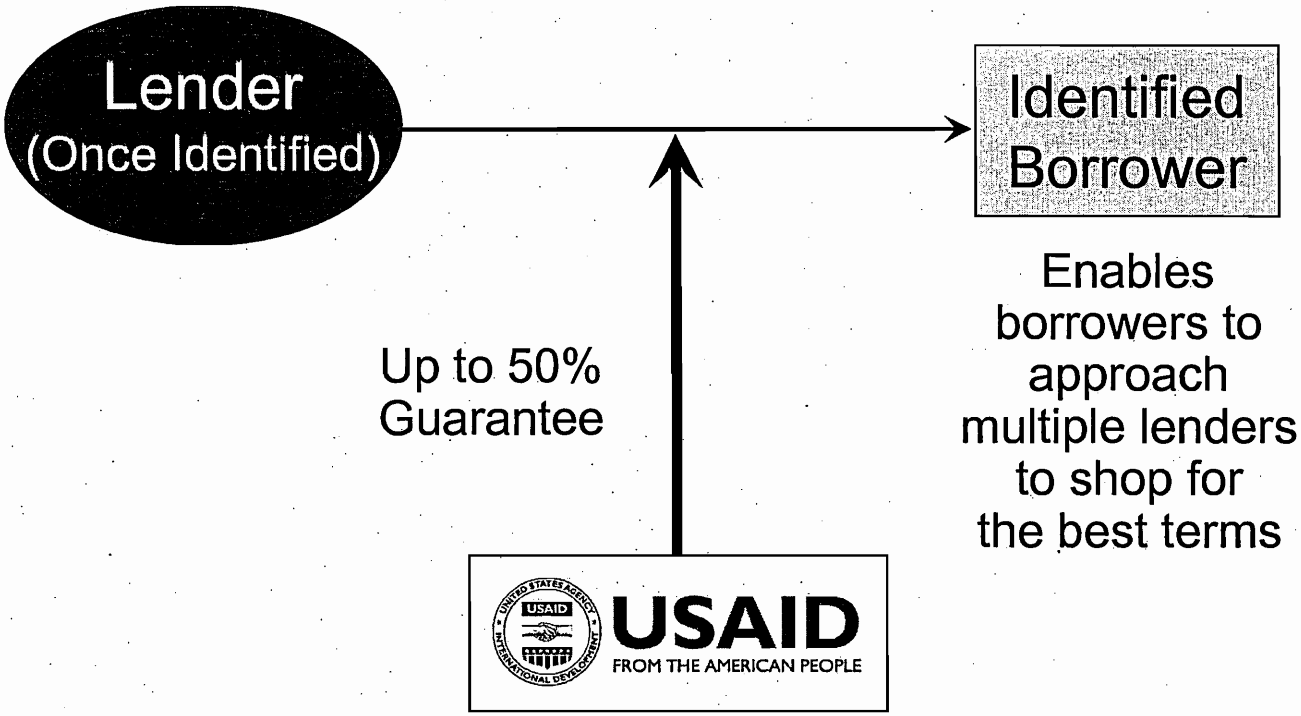
Loan Portfolio Guarantee



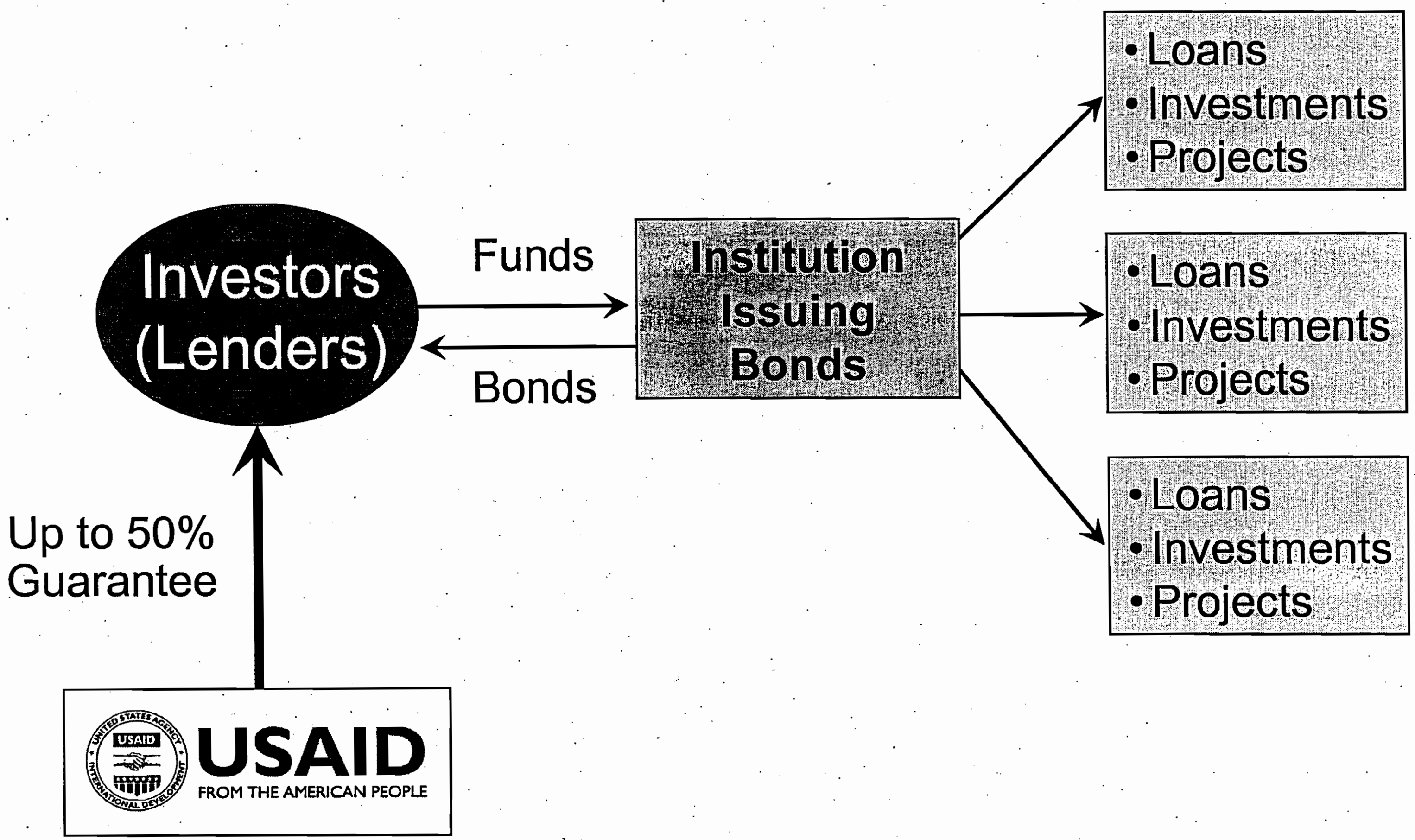
Loan Guarantee



Portable Guarantee



Bond Guarantee



TAB 4: APPLICATIONS
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Chemonics International Inc., 1133 20th St. NW, Washington, DC 20036
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Presentation: DCA Applications

DCA Guarantee Applications

DCA Seminar
July 14, 2005

Chemonics International

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Examples of DCA Applications

- How and where has DCA been applied by USAID globally?
- Which Chemonics managed projects include a DCA component?
- How can different DCA structures and activity designs be used to advance particular development objectives?
- How could DCA be used to increase impact and sustainability on your projects?

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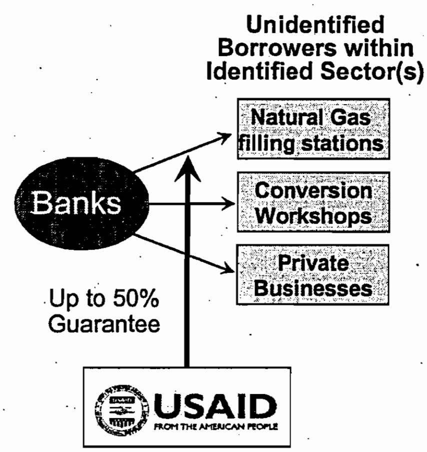
Loan Portfolio Guarantee

- **Bangladesh**
- **Sector:** Energy / Environment
- **Type:** Loan Portfolio Guarantee (2 banks)
- **Facility Amount:** $3.5 million combined (Local currency equivalent)
- **Guaranteed:** $1.75 million
- **Purpose:** Lending for compressed natural gas filling stations, conversion workshops, and capital for businesses contributing to the increased use of alternative fuel.



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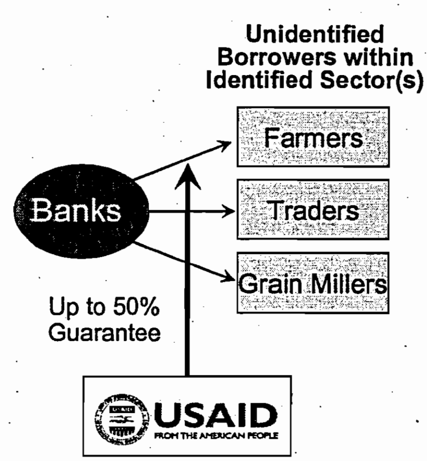
Loan Portfolio Guarantee

- **Zambia**
- **Sector:** Agriculture
- **Type:** Loan Portfolio Guarantee (4 banks)
- **Facility Amount:** $16.5 million combined (Local currency equivalent)
- **Guaranteed:** $6.6 million (40%)
- **Purpose:** Lending against commodity warehouse receipts, increasing access to working capital for farmers and increasing efficiency for traders and millers.



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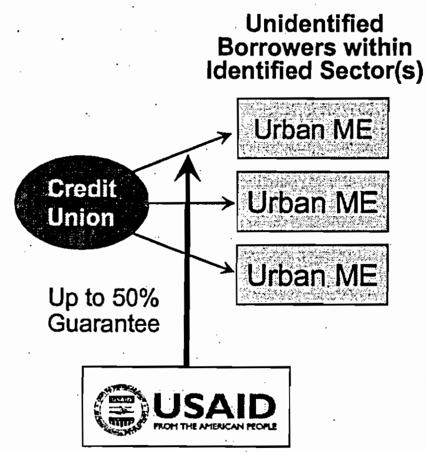
Loan Portfolio Guarantee - Chemonics

- **Mexico**
- **Sector:** Microenterprise Dev./ENRM
- **Type:** Loan Portfolio Guarantee
- **Amount:** $2.5 million
  (Local currency equivalent)
- **Guaranteed:** $1.25 million
- **Purpose:** Provides a financial institution with a guarantee on multiple loans made to micro/small entrepreneurs in Mexico City.



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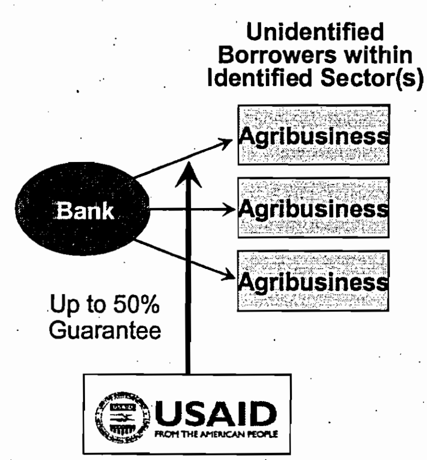
Loan Portfolio Guarantee - Chemonics

- **Rwanda**
- **Sector:** Agriculture
- **Type:** Loan Portfolio Guarantee
- **Amount:** $2 million
  (Local currency equivalent)
- **Guaranteed:** $800,000 (40%)
- **Purpose:** Stimulates lending to Rwandan agribusinesses, particularly coffee processing industry.



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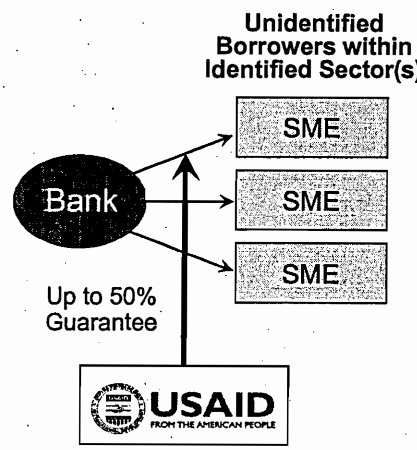
Loan Portfolio Guarantee - Chemonics

- **Jordan**
- **Sector:** SME Dev. / Competitiveness
- **Type:** Loan Portfolio Guarantee
- **Amount:** $5 million
  (Local currency equivalent)
- **Guaranteed:** $2.5 million
- **Purpose:** Provides a financial institution with a guarantee on multiple loans made to SMEs in all sectors in all geographic areas.



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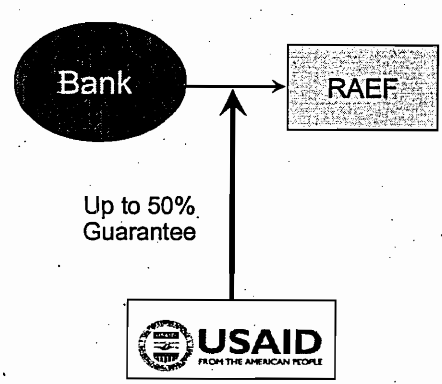
Loan Guarantee

- **Romania**
- **Sector:** Housing
- **Type:** Loan Guarantee
- **Amount:** $7 million
- **Guaranteed:** $3.5 million
- **Purpose:** Guaranteeing a wholesale loan to a fund to onlend to a mortgage finance company for residential mortgage lending.



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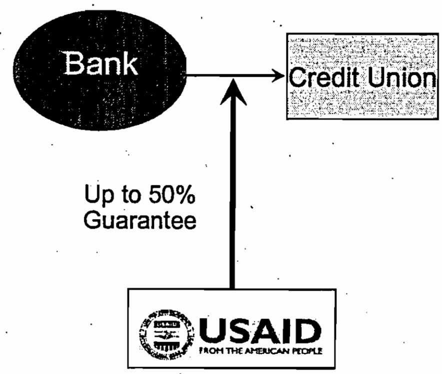
Loan Guarantee - Chemonics

- **Mexico**
- **Sector:** Microenterprise Development
- **Type:** Loan Guarantee
- **Amount:** $1 million (USD)
- **Guaranteed:** $500,000
- **Purpose:** Provide commercial capital to a microfinance institution to expand lending in rural areas.



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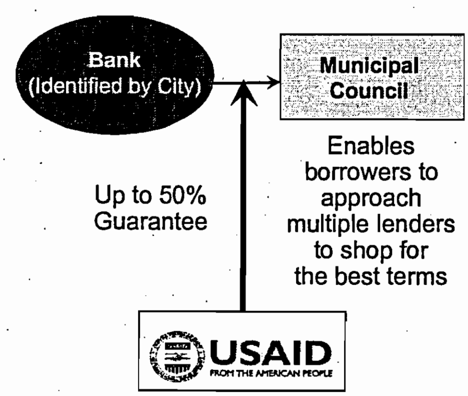
Portable Guarantee

- **South Africa**
- **Sector:** Municipal Development
- **Type:** Portable Guarantee
- **Amount:** $25 million (Local Currency equivalent)
- **Guaranteed:** $12.5 million (principal and interest
- **Purpose:** Investment by Greater Johannesburg in multiple infrastructure and utilities projects which are part of the city Project Delivery Plan.



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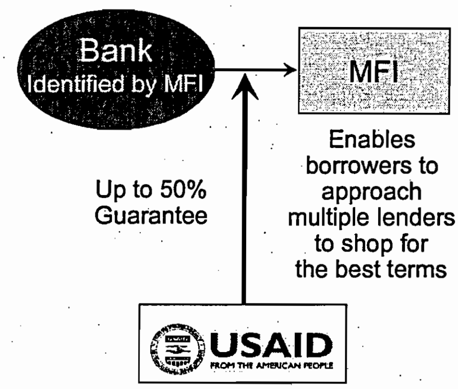
Portable Guarantee

- **Ecuador**
- **Sector:** MSME Development
- **Type:** Portable Guarantee
- **Amount:** $4 million (USD)
- **Guaranteed:** $500,000
- **Purpose:** Enhancing a revolving line of credit for loan capital for expanded microlending. The MFI can select from any lender with a minimum credit rating.



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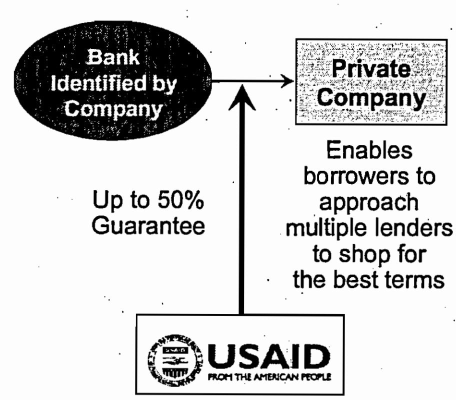
Portable Guarantee

- **Indonesia**
- **Sector:** Health / Water
- **Type:** Portable Guarantee
- **Amount:** $1.235 million (Local Currency equivalent)
- **Guaranteed:** $617,500
- **Purpose:** Loan to a company to purchase plant and equipment for diluting and bottling water purification solution.



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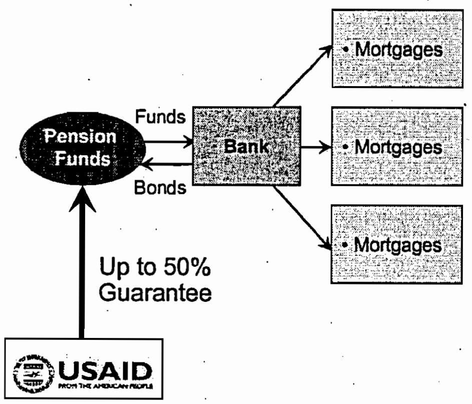
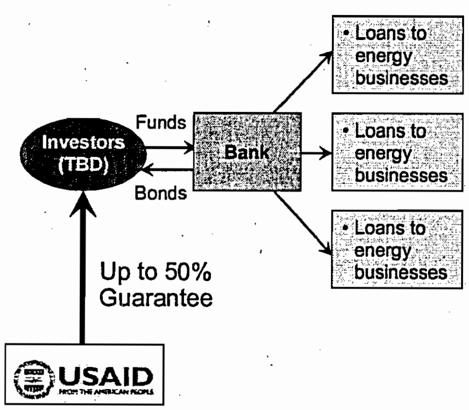
Bond Guarantee

- **Kazakhstan**
- **Sector:** Housing
- **Type:** Bond Guarantee
- **Amount:** $1 million
  (Local Currency equivalent)
- **Guaranteed:** $500,000
- **Purpose:** Partial coverage for dollar-indexed, three-year, mortgage-backed bond. Supports development of primary and secondary mortgage markets.



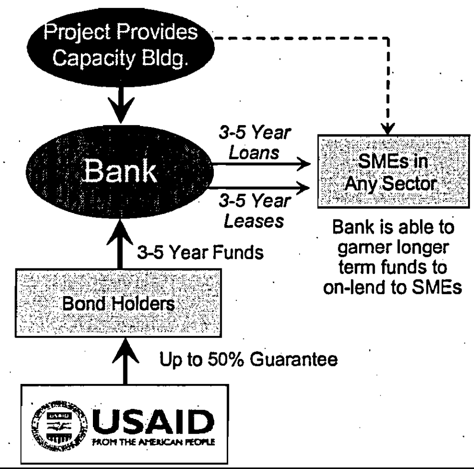
Bond Guarantee

- **Georgia**
- **Sector:** Energy
- **Type:** Bond Guarantee
- **Amount:** $3 million (USD)
- **Guaranteed:** $1.5 million
- **Purpose:** First corporate bond issue in Georgia by commercial bank will fund medium and long-term loans to clean and efficient energy businesses.



Bond Guarantee - Chemonics

- **Kosovo**
- **Sector:** SME / Competitiveness
- **Type:** Bond Guarantee
- **Amount:** Euro 20 million
- **Guaranteed:** $10 million
- **Purpose:** First bond issue in Kosovo will help a commercial bank garner longer term funds to onlend to SMEs and support capital markets development.



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Structuring to Achieve Your Objective

<u>What exactly are you trying to accomplish?</u>

- Who are your intended end beneficiaries?
- Do you want to stimulate lending to a specific sector?
- Do you want to reduce collateral requirements?
- Are you trying to encourage longer term lending?
- Are you trying to create competition to reduce interest rates?
- Are you trying to encourage lenders to introduce new credit products or instruments?
- Are you trying to deepen the capital markets?

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Structuring to Achieve Your Objective (What is the Credit Constraint?)

- Lenders believe sector is not profitable.
- Lenders unfamiliar with type or size of business.
- Lenders do not have sufficient liquidity.
- Lenders say they are not finding quality "bankable" projects.
- Lenders have no recourse in case of default.
- Lenders cannot offer term loans because of asset-liability mismatch.
- Business and project plans are not well prepared.
- Interest rates high due to lack of competition.

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Structuring to Achieve Your Objective

<u>Stimulating Lending to a New Sector</u>

- **LPG**:. Share risk on potential losses incurred from the introduction of a new loan product/instrument.
- **PG** or **LG** to facilitate increased (longer term) capital for on-lending.
- Consider a competitive approach by partnering with multiple lenders – target markets, lending approach, will be different can increase outreach.
- Consider a mid-range or above origination fee (.50 – 1.0%) to ensure lenders' commitment and long-term strategic interest in the sector.

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Structuring to Achieve Your Objective

Reducing Interest Rates

- Partner with multiple lenders to foster competition.
- Select a sector the lenders are familiar with.
- Keep utilization fees relatively low (0.25 – 0.50%).
- Consider a syndication model, where another entity is helping to buy down the interest rate.

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Structuring to Achieve Your Objective

Reducing Collateral Requirements

- Offer lender(s) an **LPG** to share risk on loans with "insufficient" collateral or those where the collateral cannot be repossessed due to legal and regulatory constraints.
- Provide TA on cashflow lending.
- Dialogue with the Central Bank / Bank Superintendency about provisioning requirements.

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Structuring to Achieve Your Objective

<u>Extending the tenor (term) of credit</u>

- Provide a **BG** to help borrower (which could be a financial institution) access longer term capital.
- For a **BG**, engage the pension funds and insurance companies in a dialogue early in the process.
- Offer a **LG** or **PG** to a financial institution interested in increasing loan tenor, but does not have the deposit base to match.
- Ensure the term of the guarantee facility is long enough to create the impact needed.

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Your Challenge

How could DCA be used to increase impact and sustainability on <u>your</u> projects?

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Sample DCA Activity Descriptions from USAID's Global Portfolio

Development Credit Authority Workshop
Selected DCA Activity Descriptions

Global

Oikocredit/OTI – Loan Portfolio Guarantee
Microfinance $10 million

Opportunity Transformation Investments (OTI) is an investment fund established by Opportunity International (OI) in 2001 to make equity investments network affiliates that are either being formed by the conversion of existing NGO microfinance institutions or are being started as new organizations. The guarantee supports a $2.0 million line of credit from Oikocredit, a Dutch development investment fund. The line of credit is being used by OTI to address the needs of affiliates for:

- additional capital to meet statutory minimum capital requirements,
- short term, bridge financing for working capital, and
- other short-term capital needs.

Ten affiliated organizations ready to transform. Over the next several years, OTI plans to invest approximately US$13 to $15 million into those institutions using grant funds received by OTI from Opportunity International (U.S.). The stand-by line-of-credit from Oikocredit provides additional flexibility to OTI to meet short-term capital needs of those transforming affiliates when needed.

Development Credit Authority Workshop
Selected DCA Activity Descriptions

Africa

Ghana
Ecobank – Loan Portfolio Guarantee
SME/Agriculture $3 million

The development of the private sector is paramount to the economic growth of Ghana. The sector is a strong provider of employment (16 percent of the labor force) and has experienced employment growth of 5 percent over the past few years. In addition, the private sector has made tremendous contributions to the economy in terms of inflow of foreign exchange.

To improve access to commercial finance and promote the development of competitive private enterprises in Ghana, the Mission is sharing risk with EcoBank on a portfolio of loans to MFIs and MSMEs. The DCA facility increases financial intermediation and strengthens both the productive capacity of private enterprises and the management capacity of production and marketing enterprises.

Despite the wide-ranging economic reforms instituted in Ghana, the private sector, especially the SMEs, faces a variety of constraints related to the difficulty with absorbing large fixed costs, absence of economies of scale and scope in key factors of production, and higher unit costs of providing services to smaller firms.

Standard Chartered Bank - Loan Portfolio Guarantee
SME $10 million

This loan guarantee agreement is combined with the above project in Ghana for a total authorized amount of US$13 million with a 50 percent guarantee on principal only. These two banks lend to all sectors and economic levels in Ghana. The DCA activity, therefore, improves reach into various business sectors—in addition to existing lead companies that tend to be large and well established. The scope of the DCA program leverages financing from local funds to both emerging SMEs and to the micro-enterprise sector.

Kenya

Agriculture/Trade/Tourism
Coop Bank - Loan Portfolio Guarantee $1 million

SME/Microfinance
Coop Bank- SMEP - Loan Guarantee $1.5 million
Coop Bank- Faulu - Loan Guarantee $1.5 million

The program supports participating financial institutions by covering up to 50 percent of the risk exposure on the principal of loans to qualifying borrowers. The sectors and/or borrowers that are covered by this guarantee include private sector enterprises involved in maize, dairy, horticulture, agribusiness processing, and storage capacity, microfinance institutions (MFIs) and NGOs. The DCA facility has two components. The first component provides guarantees to support micro finance institutions in gaining access to capital from the commercial banking sector. The MFIs use the proceeds for on-lending to micro enterprises. The second DCA component is designed as a portfolio guarantee to support commercial bank lending to micro, small and medium size enterprises with particular attention to the agriculture sector. The program strongly supports USAID Kenya's strategic objective to Increase Rural Household Incomes.

Mali
BICIM - Loan Portfolio Guarantee
Agribusiness $3 million

Partial guarantees made available to BICIM assist in mobilizing credit for medium and large-size agribusinesses operating in Mali and directly support the Mission's ongoing activities in the agricultural sector. The DCA guarantee is stimulating the growth of lending in the agricultural sector by demonstrating that lending to agribusinesses can be profitable, when risk is prudently managed. Technical assistance combined with a risk management tool, such as the DCA guarantee, can be a powerful combination of resources serving to leverage private sector investment to achieve development goals.

Bank of Africa - Loan Portfolio Guarantee
Agribusiness $700,000

Partial guarantees made available to Bank of Africa assist in mobilizing credit for medium- and large-size agribusinesses in Mali that are engaged in the processing of rice and other agricultural commodities. The DCA project stimulates the growth of lending in the agricultural sector by demonstrating that lending to agribusinesses can be profitable, when risk is prudently managed.

South Africa
INCA - Investec Bank - Portable Guarantee
Infrastructure $10 million

As part of its ongoing urban infrastructure program, USAID/Pretoria provided a five-year, rand-denominated, portable guarantee not to exceed the rand equivalent of $20 million. The purpose is to help finance a subsidiary of the Infrastructure Finance Corporation (INCA) that was established to purchase existing municipal debt experiencing repayment problems, rehabilitate that debt, and resell it to private investors in the capital market.

ABSA Bank – GJMC – Portable Guarantee
Infrastructure $25 million

Development Credit Authority Workshop
Selected DCA Activity Descriptions

This guarantee supports USAID/South Africa's objective to increase access to housing and environmentally sound urban services for the historically disadvantaged. To meet service delivery requirements, these new entities needed major capital investments. To overcome the reluctance of financial institutions to lend to municipalities, the Greater Johannesburg Municipal Council (GJMC) sought a DCA Loan Guarantee. Under this $25 million facility, USAID reviewed and approved a Project Delivery Plan prepared by GJMC, rather than approve individual investments. This plan set forth project selection criteria for water and electricity ser-vices, roads and storm-water, waste management, housing and urban redevelopment, and health clinics.

HLGC - Loan Guarantee **(Re-guarantee)**
Housing/Mortgage $100 million

South African banks are reluctant to make new housing related loans to lower income borrowers because of the potential default risks flowing from the HIV/AIDS pandemic. In order to promote the continued lending by South African banks to low-income individuals seeking home-improvement loans or mortgage loans, the Home Loan Guaranty Company (HLGC) entered into agreements with several South African banks and financial institutions to insure against the risk of defaults by low-income borrowers due to HIV/AIDS related incapacitation. HLGC charges an annual premium to the banks for providing this HIV/AIDS related coverage and this premium, together with interest earned on it, will be preserved by HLGC to payout claims under its HIV/AIDS related coverage. The rate of the premium charged by HLGC is intended to yield a pool of revenue sufficient to pay all claims made under HLGC's HIV/AIDS related coverage. USAID/South Africa proposes to utilize the DCA to cover part of the obligations of HLGC to the banks should the premium pool be exhausted.

Uganda

Micro/Small Enterprise Loan Portfolio Guarantee Program

Allied Bank International (U) Ltd.	$2 million
Centenary Rural Development Bank	$5.52 million
Barclays Bank of Uganda Ltd.	$5.5 million
Citibank Uganda Ltd.	$4 million
Nile Bank Ltd.	$3 million
Stanbic Bank Uganda Ltd.	$6 million
Standard Chartered Bank of Uganda	$4 million

USAID/Uganda is using the Development Credit Authority to introduce a multi-bank loan portfolio guarantee into Uganda that provides desperately needed access to finance for microfinance institutions (MFIs) and micro-, small-, and medium-sized businesses (MSMEs). The activity contributes to the achievement of the objective of Expanded Sustainable Economic Opportunities for Rural Sector Growth and represents an integration of environment, agricultural development, and economic growth portfolios. The activity also contributes to the objective of Increased Rural Household Income, which was part of USAID/Uganda's Country Strategic Plan for 1997-2001, and which will remain active until funds obligated into that objective are expended.

Development Credit Authority Workshop
Selected DCA Activity Descriptions

Asia & Near East

Bangladesh
HSBC - Loan Portfolio Guarantee
Energy $2 million

This loan portfolio guarantee covers loans to two types of private sector enterprises: 1) new compressed natural gas (CNG) filling stations and 2) conversion workshops for the installation of CNG units in vehicles. These guarantees help mobilize private sector investment in the provision and use of CNG as an alternative fuel.

USAID/Bangladesh is helping Bangladesh increase the use of clean fuels e.g. natural gas and thereby reduce greenhouse gases (GHGs). The purpose is to improve the performance of key institutions in the energy sector by building capacity so that the entities can transit from the present integrated or "bundled" operations to a restructured and more business-oriented approach under a reform regime. By enhancing institutional capacity and encouraging policies that promote the use of cleaner fuels, such as natural gas, and by reducing energy demand, through more efficient energy use and a reduction in system losses, economic growth will be accelerated and the emissions of harmful GHG reduced.

Prime Bank Ltd. - Loan Portfolio Guarantee
Energy $1.5 million

The loan portfolio guarantee funds provide capital for entrepreneurs or relevant companies to utilize the available credit in setting up businesses that will help to increase the use of CNG, as a clean and alternative vehicle fuel, in the transportation sector. The businesses include, but not limited to, the importation and installation of CNG refueling stations catering to different vehicle types, establishment of CNG workshops, and importation of CNG conversion kits for vehicles that run on liquid fuels to convert to CNG. The funds are expected to provide debt financing for capital investment in the CNG sector to supplement equity infusion from private entrepreneurs.

HSBC and Prime Bank Ltd administer the credit financing out of fund mobilized by the bank(s) up to $3.5 million. DCA supports 50 percent of the total principal debt facility the bank has in its portfolio of loans for CNG businesses. The guarantee does not provide coverage for accrued interest on the principal amount. This will bring about significant improvement in the air quality of the Dhaka City and other areas.

Egypt
NSGB – Loan Portfolio Guarantee
Energy $17.3 million

USAID/Egypt is utilizing $397,900 of ESF funds as subsidy for a loan portfolio guarantee agreement with the National Société Générale Bank (NSGB). The guarantee ceiling does not exceed the local currency equivalent of $8.65 million. This pilot effort is used to test how effectively and efficiently DCA can be used to leverage private investment in a number of key sectors of the USAID/Egypt environment portfolio: (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.

Commercial International Bank - Loan Portfolio Guarantee
Water $40 million

The activity is designed to expand and improve water and wastewater service delivery to underserved populations, by facilitating utilities' capacities to initiate private sector provision (PSP) of services. Through the DCA mechanism, Mission funding of approximately $1 million will leverage the Egyptian pound equivalent of approximately $56 million in loans from local private banks to locally-based businesses for the purpose of providing water and wastewater services on a contracted basis. This activity is expected to offer a lower cost of septic tank evacuation services to 50,000 Egyptians living in outlying areas who currently have no piped wastewater systems. It will also lower the cost and increase the accuracy of water meters, translating to lower water bills, for 200,000 families and businesses. It will also provide cheaper and more extensive pipe maintenance and better customer service for a service area of three million customers.

India
Karnataka WSPF - Portfolio Guarantee
Water $21.7 million

USAID/India is using the guarantee to support the issuance of an infrastructure bond. Proceeds from the bond offering will be used to improve and expand provision of water and sewerage services in the Bangalore Metropolitan Area (BMA). The project will help achieve the objectives of increased transparency and efficiency in allocation and mobilization of resources and improved access to clean energy and water in selected states.

W.S.P.F. (Tamil Nadu) - Bond Guarantee
Water $6.4 million

Promoted under the Indo-USAID FIRE project, municipal bonds have been received enthusiastically by numerous municipal authorities in India. The bond guarantee supports the establishment of the "Water and Sanitation Pooled Fund" (WSPF), which on-lends to several municipal water and sanitation projects. The funds raised by the bond issue are disbursed as sub-loans to the participating urban local bodies. The activity exemplifies the guiding principles of the DCA program by addressing current development objectives of USAID/India, correcting a market imperfection related to financing of urban infrastructure in the country, and showing financial viability in the project's debt repayment structure.

Morocco

Development Credit Authority Workshop
Selected DCA Activity Descriptions

DAD - Loan Portfolio Guarantee **(Re-guarantee)**
Infrastructure $3 million

Local Government Units (LGUs) in Morocco require the means to finance projects undertaken at the local level. Currently, LGUs do not have access to private sector financing. Preliminary studies indicate that the banking system currently finances only 7 percent of LGU needs in spite of the current condition of excess of liquidity. Without access to financing, the ability of LGUs to act decisively and meaningfully to improve inhabitants' quality of life is seriously constrained. To address this issue, USAID/Morocco is providing a partial re-guarantee facility for a portfolio of loans covered by Dâr ad-Damâne (DAD), a local private-sector guarantor owned by a consortium of mostly private banks. Loans eligible for re-guarantee under DCA would involve private sector financing from DAD's owner-banks to qualifying community-based service delivery projects.

BMCE- Loan Portfolio Guarantee
Housing/Mortgage $5 million

The loan portfolio guarantee facility provides low-income households with access to affordable "social" housing based on incentives by promoting investments from BMCE in the housing sector, improving access to financing for housing by low-income households, and improving the living conditions of urban low-income households.

Zakoura – Microfinance - Portable Guarantee
Micro/Small Enterprise $1 million

To address the need for financing products targeted to the lower end of the income spectrum, the Mission has sought to forge strategic partnerships between commercial banks that have the legal authority to engage in housing credit and microfinance institutions that understand the requirements of lending to the lower-income strata in Morocco.

Zakoura provides credit to the most underprivileged population of Morocco, especially women. The institution works in both rural and urban areas. To support the ongoing operations of Zakoura and to expand access to micro-credit, USAID/Morocco extended portable loan guarantees to Zakoura for its expansion of financing. The guarantee facilities allow the institution to approach private lenders to access capital for on-lending to clients. This provides additional loan capital and likewise strengthens Zakoura by supporting the diversification of its fund sourcing.

Zakoura – Housing - Portable Guarantee
Housing/Mortgage $2 million

Morocco suffers from a severe housing deficit with roughly 750,000 units needed to fill this void. Current Moroccan law prevents microfinance institutions from lending for home improvement or housing purposes, therefore the housing sector lacks reliable sources of both public and private sector financing. Several institutions are lobbying the Ministry of Finance for a waiver to allow direct lending for housing development.

This portable guarantee facility promotes investments from commercial banks and microfinance institutions in the housing sector, improves access to financing for housing by low-income households, and improves the living conditions of urban low-income households. The guarantee allows the commercial banks to expand their client-base using the sector-specific expertise of Zakoura while bringing needed capital into the low-income housing sector.

Al-Amana - Microfinance - Portable Guarantee
Microfinance $1 million

Al-Amana promotes microenterprise development and makes loans to traders, craftspeople, and other small businesses in urban areas of Morocco. Al-Amana provides access to credit for all men and women microentrepreneurs who are excluded from commercial banks and traditional bank institutions. To address the need for financing products targeted to the lower end of the income spectrum, the Mission has sought to forge strategic partnerships between commercial banks that have the legal authority to engage in housing credit and microfinance institutions that understand the requirements of lending to the lower-income strata. Current Moroccan law prevents microfinance institutions from lending for home improvement or housing purposes. However, institutions are lobbying the Ministry of Finance for a waiver to allow direct lending for housing purposes.

Al-Amana – Housing - Portable Guarantee
Housing/Mortgage $5 million

To support the ongoing operations of al-Amana and to expand access to micro-credit in Morocco, USAID/Morocco extended portable loan guarantees to al-Amana for its expansion of financing. Al-Amana shares risk with the lending bank and bears partial responsibility for any defaults by the borrowers and receives compensation on a performance basis. This form of strategic partnership, made possible by the DCA credit enhancement, allows the commercial banks to expand their client-base using the sector-specific expertise of Al-Amana while bringing needed capital into the low-income housing sector as well.

Fonds d'Equipment Communal (FEC) - Loan Portfolio Guarantee
Infrastructure $4.6 million

Morocco is projected to become a water deficit county by 2020 if current trends continue. USAID targets improved water resource management by strengthening policy, regulatory, and institutional frameworks; promoting adoption of improved technologies; and broadening public participation for environmental action, including urban sanitation. The DCA guarantee supports these objectives by expanding the capacity of FEC to finance eligible projects and by promoting investment from commercial banks in local development and improving access to financing for sanitation infrastructure by local governments. The loan portfolio guarantee is unique in that it allows FEC to transfer a portion of the guarantee ceiling to local private banks with a credit rating equal or better than that of FEC.

Philippines
LGUGC - Loan Portfolio Guarantee
Urban/Environmental $28.5 million

The Loan Portfolio Guarantee supports USAID/Philippines' objective of Investment Less Constrained by Corruption and Poor Governance. The $28.5 million DCA facility has been essential to establishing the credibility of the Local Government Unit Guarantee Corporation (LGUGC) with the local private financial sector, whose investments in the guarantee fund are the most important factor in the fund's long-term sustainability.

OMB-WFMC - Loan Portfolio Guarantee
Health $750,000

USAID is providing a guarantee to the Opportunity Microfinance Bank (OMB) on its loan portfolio for loans made to midwife clinics that are franchise members of the social franchise known as the *Well Family Midwife Clinics Partnerships Foundation* (the "Partnership"). The characteristics of the portfolio are that funds for borrower loans come from two sources: bank funds plus a trust fund to be established by the Partnership. To ensure quality control and, where necessary, coaching for borrowers facing financial challenges, guaranteed loans are only be made to midwife clinics who are franchisees in good standing.

Vietnam
Asia Commercial Bank - Loan Portfolio Guarantee
Educational Lending $500,000

The Loan Portfolio Guarantee supports the extension of loans by a local private bank – Asia Commercial Bank (ACB) in Vietnam - to students who pursue graduate degrees in economics and business administration at Vietnamese educational institutions. The guarantee strongly supports USAID/Vietnam's Program Goal of an Enhanced Environment for Trade and Investment, which aims to accelerate Vietnam's transition to a market-based economy that is open to the private sector and that can take advantage of increasing access to global markets.

Asia Commercial Bank - Loan Portfolio Guarantee
SME $5 million

The guarantee envisions executing two loan portfolio agreements with two local private banks in Vietnam in support of increased lending to local private SMEs. Traditionally, the Vietnamese state-owned commercial banks have directed their lending to big state-owned enterprises as a target group of clients, leaving most SMEs to the private banks.

For their part, the private banks have followed a policy of collateral-based lending that requires the borrower to pledge substantial collateral in return for a loan. The DCA guarantee program will encourage those banks that are developing their lending skills as well as expand access to financing within the SME sector. The guarantee supports USAID/Vietnam's Program Goal of an Enhanced Environment for Trade and Investment.

Europe & Eurasia

Armenia
Agriculture/SME

Anelik Bank - Loan Portfolio Guarantee	$1 million
Converse Bank - Loan Portfolio Guarantee	$1 million
INECO Bank - Loan Portfolio Guarantee	$1 million

The purpose of the SME-Finance Support Project (FSP) is to increase access to credit to Armenian Small & Medium Enterprises (SMEs), including agribusinesses. The essence of the FSP is to encourage financial institutions to extend loans to commercially viable SMEs and agribusinesses, which are generally not able to access credit in the formal financial markets due to the high risks and perceived disproportionate transaction costs. The project offers loan portfolio guarantees to a variety of bank and non-bank financial institutions to partially (50 percent) cover losses on loan principal arising from loans extended to qualified borrowers. The project addresses the strategic objective of supporting growth of a competitive private sector.

Bosnia
Volksbank BH d.d (infrastructure). - Loan Portfolio Guarantee
Infrastructure $25 million

The activity guarantees 50 percent of the lending portfolio of Volksbank BiH to finance revenue-generating investments at the municipal level that promote economic and environmental development while strengthening the fiscal autonomy of local governments.

The DCA guarantee secures up to 50 percent of the portfolio principal of $25 million in Volksbank BH loans to municipal governments. Loans support revenue-generating projects that serve a development interest. Illustrative examples of potential financed projects include: water (increased capacity, improved meterage, decreased system loss, etc.); wastewater (sewage pipes, treatment facilities, etc.); solid waste (consolidated waste disposal, equipment upgrades, etc.); and other infrastructure projects that support municipal development and where revenue can be segregated (parking structures, limited physical improvement prior to privatization, etc.)

Volksbank BH d.d.(agriculture) - Loan Portfolio Guarantee
Agriculture $ 12 million

The DCA facility seeks to overcome a major obstacle to private enterprise growth in Bosnia and Herzegovina -the lack of financing for the SMEs, particularly medium and long term financing. Despite growth in deposits and retail lending, banks in BiH are still reluctant to lend to private enterprises. Total bank lending to private enterprises, as opposed to lending to citizens, comprises less than 40 percent of total bank lending, which is fairly low by transition economy and international standards. Domestic lending is an important source of investment and working capital, especially where access to international sources of funds is virtually non-existent.

The DCA guarantee secures up to 50 percent of the loan principal provided by VolksBank BH to enterprises in competitive sectors in agriculture production and processing, wood processing and tourism, all with the ultimate objectives of increasing economic growth, employment and prosperity.

Zagrecacka BH Bank – Loan Portfolio Guarantee
Agriculture $9 million

The DCA facility covers up to 50 percent of the risk exposure on the principal amount of loans extended to qualifying non-sovereign BiH borrowers defined as creditworthy private enterprises in sectors with potential for high competitiveness in BiH, i.e., agriculture production and processing, wood processing and tourism.

Bulgaria
First Investment Bank - Loan Portfolio Guarantee
SME $20 million

Lack of commercial finance continues to be an obstacle to the development of competitive private enterprises in Bulgaria and, hence, to overall economic and social development in the country. Thus, the Loan Portfolio Guarantee is a critical component of the Mission's comprehensive enterprise development program, serving to stimulate domestic lending and encourage greater financial intermediation. The DCA activity contributes towards achieving the intermediate results associated with the objectives of Accelerated Growth of Private Enterprises and A More Competitive and Market Responsive Private Financial Sector.

Agriculture/SME
Hebros Bank - Loan Portfolio Guarantee $10 million
Post Bank - Loan Portfolio Guarantee $10 million

Development Credit Authority Workshop
Selected DCA Activity Descriptions

Overcoming the market imperfections that impede lending to agriculture is critical to the development of a viable agricultural sector in the country, thus sustaining economic growth and employment in Bulgaria. In order to address the farmer needs for investment and working capital, USAID/Bulgaria is using a Loan Portfolio Guarantee facility to lend to the agriculture sector as a means to encourage financial intermediation, job creation, and increased productivity. The guarantee promotes bank lending to agriculture by (1) mitigating perceived risks, prohibitive collateral requirements, and collateral eligibility problems, and (2) building the participating banks' experience and capacity for lending to farmers and agriculture processors. By promoting bank lending, the guarantee directly supports USAID's objective to promote improved business climate conducive to private sector needs, economic growth, increased employment and investment.

United Bulgarian Bank - Loan Portfolio Guarantee
Energy $10 million

USAID has granted a Loan Portfolio Guarantee to the United Bulgarian Bank (UBB) to demonstrate the financial viability of long term project financing for energy efficiency investments. By acting as a catalyst for private financing, the DCA facility is helping reduce unnecessary expenditures on energy, improve municipal finances, and decrease greenhouse gas emissions. USAID is also providing extensive technical assistance to help public and private borrowers identify projects, develop their business plans, and prepare loan applications.

Croatia
Privredna Bank - Loan Portfolio Guarantee
Housing/Mortgage $20 million

The activity provides Privredna Banka Zagreb, a privately owned Croatian bank, with a partial loan portfolio guarantee to extend loans to new and current home owners in the war-affected areas of the country. Other banks that have shown interest in the DCA mechanism may be prospective lenders in the future. The DCA activity contributes towards achieving the intermediate results associated with the objective of Accelerated Return and Reintegration of War-Affected Populations.

Kazakhstan
Lariba Bank - Bond Guarantee
Housing/Mortgage

$1 million

The purpose of this activity is to support the development of mortgage lending and a secondary mortgage market in Kazakhstan by providing a 50 percent principal guaranty of a $1 million mortgage-backed bond issue. The DCA guarantee covers up to 50 percent of principal losses for a dollar-indexed $1 million equivalent, three-year, mortgage-backed bond issued by Lariba Bank, based in Almaty. Once the first bond is paid off, a new, four-year, $1 million bond will be issued under similar terms. The pilot is designed to demonstrate that banks can originate mortgages and then liquefy them through the creation of a security and subsequent sale. This, in turn, gives banks the opportunity to re-lend and build a portfolio of mortgages for servicing while capturing a positive spread between the sale price of the note and weighted average coupon of the originated portfolio.

Moldova
Banca Sociala- Loan Portfolio Guarantee
Agriculture/SME $1 million

The purpose of the Credit Enhancement Project (CEP) Project is to increase access to credit to small and medium enterprises (SMEs) and agriculture producers. The essence of the CEP is to encourage financial institutions to extend loans to commercially viable SMEs and agriculture producers, which are generally not able to access credit in the formal financial markets due to the high risks and perceived disproportionate transaction costs. The project will be offering loan portfolio guarantees (LPGs) to a variety of bank and non-bank financial institutions to partially (50 percent) cover losses arising from loans extended to SMEs and farmers.

Mobiasbanca – Loan Portfolio Guarantee
Agriculture/SME $4 million

The project offers loan portfolio guarantees (LPG) to a variety of bank and non-bank financial institutions to partially (50 percent) cover losses resulting from their lending operations to SMEs and farmers. The project, at a later stage, will also be offering portable guarantees to a non-bank financial entity that will allow its holder to shop for loans to increase its liquidity from financial institutions.

Moldinconbank – Loan Portfolio Guarantee
Agriculture/SME
$2 million

The guarantee strengthens the bank's ability to finance loans to qualified borrowers in the small and medium enterprise (SME) and agricultural sectors, thereby promoting lending in both of these sectors. Qualifying projects activities, including investments, are designed to promote small business production and agricultural production in Moldova – especially to improve the productivity of private farmers. The Mission is providing a US$2 million LPG facility (the maximum portfolio amount) with a guarantee ceiling of US$1 million. Loans may be extended in MDL or US dollars.

Rural Finance Corporation – Loan Portfolio Guarantee
Agriculture/SME $1 million

Development Credit Authority Workshop
Selected DCA Activity Descriptions

In FY 2003, the Rural Finance Corporation (RFC) received a $1million LPG. The RFC, a non-bank financial institution, 99 percent owned by the Savings and Credit Associations, (SCAs), providing direct loans to farmers, is currently receiving assistance from the World Bank and CNFA. A portion of these loans have been granted to farmers to assist them in buying new land, hence promoting the further consolidation of farming land in Moldova. The project also provides portfolio and portable guarantees to the Rural Finance Corporation (RFC) for risk mitigation and liquidity enhancement purposes.

Romania
Raiffeisen Zentralbank - Loan Guarantee
Housing $7 million

USAID/Romania has identified the housing sector as one of its key target sectors and further recognizes that mortgage lending will be critical to the long-term growth and stability of the financial sector. Through the use of DCA partial guarantees, the Mission hopes to attract additional capital for this program. Specifically, the DCA guarantee enables RAEF to secure a $7 million ten-year loan from Raiffeisen Bank Romania on behalf of Ro-Fin. This loan combined with the infusion of capital provided by RAEF will provide Ro-Fin with the necessary long-term funding to commence operations, once it has been formally established.

Russia
SDM Bank – Loan Portfolio Guarantee
SME $3 million

The DCA program provides SDM bank with a 50 percent guarantee on a portfolio of loans made for micro and small enterprises. Through this program, USAID encourages SDM bank to extend loans through its branch network to commercially viable SMEs that might not otherwise be able to access credit in the formal financial markets due to perceived risks of small business lending. The program helps mitigate these obstacles and helps SMEs to acquire needed capital to expand their operations, contributing to the growth of this sector and increased employment opportunities in the regions of operation.

Ukraine
Nadra Bank - Loan Portfolio Guarantee
SME $6 million

The activity provides Nadra Bank, a privately owned Ukrainian bank, with a partial loan portfolio guarantee to extend loans to small farmers and suppliers. Other banks are interested in the DCA mechanism, are currently negotiating the terms of the facility, and may be prospective lenders in the future. The DCA activity will significantly contribute towards achieving the intermediate results associated with the objectives of Accelerated

Development Credit Authority Workshop
Selected DCA Activity Descriptions

Growth of Private Enterprises and A More Competitive and Market Responsive Private Financial Sector.

Development Credit Authority Workshop
Selected DCA Activity Descriptions

Latin America & Caribbean

Regional
Ecologic Enterprise Venture – Loan Portfolio Guarantee
Agriculture $4 million

This guarantees seeks to achieve the objective of Enabling Environment for Market Access Strengthened by enhancing trade and investment within the LAC region. EcoLogic Enterprise Ventures (EEV) operates as a "green" or ecologically enhancing loan fund, affording financing to eco-enterprises located in environmentally sensitive areas of Latin America. EEV is developing a portfolio of loans from $10,000 to $200,000 targeted to small-scale producer organizations. These common goals — biodiversity, conservation and inclusive economic development — are achieved through support of production of exportable high-quality agricultural related products.

ProARCA/SIGMA – Loan Portfolio Guarantee
Environment/SME **$10 million**

This guarantee provides capital for small and medium enterprises (SMEs) throughout Central America willing to introduce, upgrade or retrofit industrial, agro-business and services processes that utilize cleaner production practices, certification processes and environmental management systems. The agribusiness sector in Central America is an important contributor to GDP. Despite its importance for the region's economies, this sector has been characterized by the use of unsustainable practices and constraints for small and medium size businesses to access private financing and technical assistance.

Ecuador
Banco Solidario- Citibank - Portable Guarantee
Micro/Small Enterprise $4 million

The Mission recently launched a major microfinance program under its new Poverty Reduction Strategic Objective in an effort to increase economic opportunities for the large number of poor. It would like to build upon a previous loan guarantee facility that afforded Banco Solidario access to a revolving line of credit with Citibank under the auspices of the Micro- and Small Enterprise Development (MSED) Program. The DCA facility seeks to both expand the volume and terms of credit available to Banco Solidario and support the institution in its ongoing efforts to diversify its fund sourcing.

Guatemala
Bancafé - Loan Portfolio Guarantee
SME $20 million

To promote rural lending, USAID provided a $5 million Loan Portfolio Guarantee to Bancafé, an established Guatemalan bank with a strong rural presence. The bank has made a strategic decision to grow its microloan business, and the bank president views the Loan Portfolio Guarantee as the right tool to support this new initiative. The

Development Credit Authority Workshop
Selected DCA Activity Descriptions

The DCA facility facilitates lending for two main purposes: 1) Small and medium sized hotels and manufacturing firms for environmental retrofitting projects including the installation of new and improved equipment for energy efficiency and water conservation and 2) Small and medium sized enterprises for a range of activities including business expansion, fixed asset improvement, working capital, and equipment purchases.

This activity improves the development impact of USAID to increase financing to the micro and small business sector, and assists the GOJ in its efforts to improve the overall business environment in Jamaica. DCA loan portfolio guarantees provide an excellent support to complement ongoing programs to strengthen the SMME sectors. Using a loan portfolio guarantee, USAID, working together with the selected local commercial bank/s, brings in the necessary investments to stimulate the growth of SMME. The DCA guarantee together with current USAID projects will result in sustained economic growth in these sectors. Without expanding sustainable economic opportunities for SMMEs growth, the goals of many USAID/Jamaica programs may not be met. It is an essential component of USAID/Jamaica's Mission. Additionally, it will further cement USAID/Jamaica's commitment to the GOJ in implementing its Competitive Strategy for the Private Sector.

Mexico
Union Progreso - Wells Fargo - Loan Guarantee
Micro/Small Enterprise $1 million

This project seeks to increase the amount of capital available to Unión Progreso to provide microfinancing to marginal groups and the poor residing in rural Chihuahua. The guarantee supports the Mission's objective on microenterprise growth, which is designed to strengthen the institutional base for sustainable microenterprise growth by supporting Mexican initiatives. The project peripherally supports the objective of environmental preservation and energy conservation.

FinComún - Loan Portfolio Guarantee
Micro/Small Enterprise $2.5 million

The guarantee supports the Mission's objective on microenterprise growth, which is designed to solidify the institutional base for sustainable micro enterprise growth. This includes strengthening the management of financial services and promoting mechanisms to meet the needs of micro enterprises. By stimulating increased market-based lending by FinComún to micro enterprises, the $2.5 million DCA facility is intended to demonstrate the existence of a large, profitable market for these services.

Nicaragua
Bancentro - Loan Portfolio Guarantee
Micro/Small Enterprise $5 million

Development Credit Authority Workshop
Selected DCA Activity Descriptions

The lack of commercial financing in Nicaragua continues to be an obstacle to the development of new sectors and also hinders the successful recovery of historically profitable sectors emerging out of recent crises such as the El Niño phenomenon and Hurricane Mitch. Thus, the Loan Portfolio Guarantee is a critical component of the Mission's economic growth program, serving both to stimulate domestic lending to traditionally under-served sectors and to new sectors, as well as encourage rural development.

Peru
Banco de Credito I - Loan Portfolio Guarantee
Energy $2 million

This activity provides a local bank with a loan portfolio guarantee to provide capital for small and medium enterprises (SMEs) in Peru willing to introduce, upgrade or retrofit industrial processes that utilize cleaner technologies. End-of-pipe projects are also be eligible, provided that the corresponding projects could generate positive cash flows for the debtor, for instance, in avoiding pollution fines or penalties from the government, or in new sales generation to international clients requesting operative environmental standards. The activity promotes and supports the development of sustainable financing mechanisms for cleaner production and directly contributes to the Mission's ongoing environmental initiatives.

FOGAPI - Loan Portfolio Guarantee
Micro/Small Enterprise $2 million

IMPACT, "Increasing Microfinance for the Poor Activity", is a five-year USAID/Peru program designed to foster the growth and sustainability of microfinance institutions (MFIs) by providing MFIs with technical assistance, training, specialized services, and funding. Over the years, IMPACT has played an important role in the growth of village banking MFIs; the transformation of credit NGOs into EDPYMEs (a type of financial institution specialized in microcredit), and the expansion of important industry-wide services such as credit history reports and financial procedure transparency. The guarantee supports the extension of guarantees by FOGAPI, a guarantee fund for small industries, to banks working with the microfinance sector. The guarantee connects small and micro entrepreneurs with much-needed capital by encouraging FOGAPI to offer guarantees to unregulated microfinance institutions and thus build confidence between credit NGOs, EDPYMEs and commercial banks.

Development Credit Authority Workshop
Selected DCA Activity Descriptions

Agriculture
San Martin Rural Savings - Loan Portfolio Guarantee $6 million

Senor de Luren Rural Savings and Loan - Loan Portfolio Guarantee $4 million

Los Liberatores de Ayachucho – Loan Portfolio Guarantee $2 million

In support of USAID/Peru's mission-wide taskforce on Alternative Development, the DCA guarantees expand the availability of financial resources from various private sector sources to finance the process of well-structured and organized crop production value chains. These sources of private capital are diversified among rural savings and loan banks, buyers, and input suppliers. The USAID/Peru Poverty Reduction and Alleviation (PRA) program organizes and facilitates closed-market transactions between these financing sources and small-scale agriculture produces in the Alternative Development (AD) zones by creating upfront buyer-producer contracts, i.e. "contract farming", with an underlying external financing need to support the operational costs of the producer. Loans, predominantly working capital in nature and guaranteed by DCA in the proposed structure, are exclusively available for crop producers participating in the PRA-sponsored value chain.

Chemonics DCA Activity Descriptions

Chemonics Development Credit Authority (DCA) Activity Descriptions

Africa

Rwanda Agribusiness Development Assistance (ADAR), 2000 – 2006

The Chemonics implemented ADAR project is adding value to key commodities targeted for export; building efficiency and expanding employment in commodity chains; upgrading managerial and technical capability; improving product quality; expanding access to markets; and developing financing options to support agribusiness growth. To complement these efforts, Chemonics assisted USAID/Rwanda in establishing a DCA loan portfolio guarantee for a leading Rwandan private commercial bank to expand access to credit to USAID-supported agricultural enterprises in strategic export-oriented sectors to boost productivity and competitiveness. The bank's US$2 million guarantee facility is stimulating lending to Rwandan agribusinesses for short-term working capital and medium-term capital investment needs. Chemonics conducted the DCA Risk Assessment, and during the implementation phase of the guarantee facility, our team is linking agribusiness clients to the bank through firm-level technical assistance activities. As of March 31, 2005, the bank had approved US$1.5 million in investment and working capital loans for eight of ADAR's agribusiness clients. Additionally, ADAR sponsored a DCA study tour in Uganda for a group including two of the bank's credit officers and two ADAR coffee clients, where they met with the USAID Uganda DCA team, three banks participating in USAID/Uganda's multi-lender DCA programs (see below), and USAID programs such as APEP, SCOPE and Rural SPEED.

Uganda Support for Private Enterprise Expansion and Development (SPEED) I and II, 2000 – 2003 and 2003 – 2004

Through USAID's SPEED project, Chemonics works with micro, small, and medium enterprises (MSMEs) in Uganda to make them more creditworthy, helping the "missing middle" gain access to needed credit. We also support microfinance institutions to expand and move up market while concurrently helping commercial banks move down market to meet the financial needs of that missing middle. To magnify the development impact of the project, SPEED identified and designed a $30 million five-year DCA program to attract seven commercial banks to new or underserved markets, including agricultural and SME lending, and lending to microfinance institutions (MFIs). SPEED conducted the economic and financial feasibility analysis, drafted the Mission DCA action package, achieved commercial bank commitment to use the facility, assisted in completing the legal documentation for the guarantee agreements and delivered training for the partner banks.

By March 2005, the seven participating banks had placed 238 loans worth over US$21.7 million under the DCA. More than 50% of the loans in value terms have been disbursed to agriculture sector borrowers or MFIs for on-lending to microenterprise borrowers, and the banks are using the guarantee to promote new products and lend to smaller, larger, or more rural clients. A sampling of businesses receiving DCA guaranteed loans found that, on average, borrower sales increased by 20 percent in just one year, and a recent program evaluation found that 75% of the loans would either not have been made at all or would have been substantially smaller without the guarantee.

Uganda Support for Private Enterprise Expansion and Development (SPEED) in Rural Areas, 2004 - 2007

Following the success of the original DCA guarantee program USAID has expanded its support to rural MSMEs and MFIs with a new $15 million loan portfolio guarantee facility for three of the original seven banks and one MFI. The rural finance facility will support private lenders in further expanding outreach in rural areas - to smaller borrowers in the case of the banks, and larger borrowers in the case of the MFI.

Rural SPEED is currently promoting and managing the DCA for USAID/Uganda, including reporting to the Office of Development Credit (ODC).

Uganda Agricultural Productivity Enhancement Program (APEP), 2003 – 2008

Under the APEP project, Chemonics is enhancing productivity, increasing household income, and creating jobs. The project assisted USAID/Uganda in establishing a DCA guarantee facility to promote access to needed finance for APEP-supported and other producers and agribusinesses through an innovative warehouse receipts program. This $14 million multi-lender guarantee facility is stimulating commercial bank lending for commercial grain merchandising against warehouse receipts issued to terminal and field warehouses operated by traders, exporters, and other commercial depositors of non-perishable commodities. The DCA-enhanced warehouse receipts program will have positive long-term effects on commodity price stability and smallholder wealth creation, contribute to accelerated commodity marketing, and create a sustainable source of financing from local banks.

Mali Financial Sector Strengthening, 2003-2008, and Mali Sustainable Economic Growth, 1998-2003

The Chemonics managed Agro-Enterprise Center (AEC) was established to help agribusinesses within Mali's cereal, livestock and fruit and vegetable sub-sectors to improve product quality and management skills, increase access to markets, and increase access to financing. The AEC offered several hundred clients management and technical training, market information, professional services of local experts in accounting and business planning, information on financial sources and other services, and the AEC initiated pilot projects to improve food processing and marketing. To complement the AEC's work with agribusiness subsectors, a $3 million DCA loan portfolio guarantee was established with a commercial bank to mobilize credit for medium and large-sized Malian agribusinesses and stimulate growth in the agricultural sector by demonstrating that agribusiness lending can be profitable. The Chemonics-managed Mali Financial Services project is implementing and monitoring this DCA guarantee for USAID/Mali.

Asia/Near East

Jordan Achieving Market-Friendly Initiatives and Results (AMIR) II, 2002 - 2006

Through the AMIR II program, Chemonics assisted USAID/Jordan in designing, structuring, and developing the Mission's first DCA activity to stimulate lending to small and medium-sized enterprises (SMEs). This $5 million DCA loan portfolio guarantee (LPG) will facilitate access to longer term financing for capital investment and working capital for SMEs currently underserved by the financial sector, and will complement multiple technical assistance initiatives being undertaken by USAID to strengthen SMEs and the banking industry's capacity to lend to them. SMEs in any sector, including those participating in a major Government of Jordan program to boost national competitiveness through strengthening backward linkages, will be the target clients for lending under this guarantee facility.

Egypt Institutional Development Services for Secondary Cities (IDS-CSP), 1995 – 2004

Overpopulation and inefficient management threaten Egypt's water supply. To help meet growing demand, Chemonics worked in seven Egyptian cities to establish independent utilities capable of delivering quality services while keeping costs down, helping water utilities improve services through planning, reorganization, operational upgrades, and training. IDS-CSP helped USAID develop two DCA loan portfolio guarantees for $56 million in bank lending to private companies servicing water utilities in Egypt. The loans are expected to increase private participation to help eliminate the $50 billion investment deficit in the sector. The resulting subsidy cost paid by USAID/Egypt is only $980,000, less than 2 percent of the anticipated $56 million portfolio. The project team worked closely with USAID/Egypt Mission staff and the Office of Development Credit to package the loan portfolio guarantee by developing a concept paper, preparing the economic and financial viability analyses, and introducing the program to the partner lenders and potential borrowers. Lending began under the single currently active $40 million guarantee in fall 2003.

Europe & Eurasia

Armenia Micro Enterprise Development Initiative (MEDI), 2003 – 2006

Armenia Micro Enterprise Development Initiative (MEDI) aims to turn growth in Armenia's economy into job opportunities through a market-based approach to strengthening micro and small enterprises. Armenian MSMEs do not have the access to the working capital finance products such as purchase order or forward contract financing they need to fill orders, thereby increasing revenues, profits, employment, and exports. Concurrently the banks do not have appropriate financial instruments for their needs and/or do not have sufficient capacity to analyze and lend to these businesses. MEDI is encouraging financial institutions to start or increase lending to MSMEs by helping introduce purchase order and pre-export finance products on a trial basis, however the banks will require a credit enhancement for the first several years to overcome their perceived risk of lending to this market. To complement these efforts, the project has prepared a concept paper for a $1 million DCA Loan Portfolio Guarantee to partially share a local commercial bank's risk in lending to MSMEs against purchase orders, to increase access to credit for this segment of the market and foster economic growth in Armenia.

Kosovo Cluster Business Support (KCBS), 2004 - 2008

Chemonics is helping boost the competitiveness of key clusters in Kosovo and helping to increase employment through USAID's KCBS project. In complement to this effort, and other USAID initiatives and objectives, Chemonics has prepared a concept paper for the Mission for a DCA guarantee facility to support a commercial bank's extension of term loans of 3 to 7 years to SMEs that are currently without access to that type of credit. A DCA Bond Guarantee will cover 50% of a Certificate of Deposit issuance by the bank, thereby encouraging both institutional investors such as pension funds, and retail investors in the general public to purchase the 3-year and 5-year CDs. With the funds garnered by these CDs, the bank will be able to utilize the new long term deposits to make longer term loans, targeting, among others, the sectors of development interest to USAID Kosovo such as construction materials, fruits and vegetables, and livestock (meat, poultry, dairy and animal feed). Long term loans are needed by Kosovar SMEs for building factories, warehouses and silos, installing new production lines, refurbishing existing production lines to meet new quality standards, and acquiring vehicles, harvesting and other equipment. This guarantee will create an additional impact in that this will be the first long term savings instrument in Kosovo, which would be the first of its kind in the financial markets.

Moldova Rural Finance Case Study - Accelerating Microfinance Advancement Project (AMAP) Knowledge Generation Task Order (2003-2006)

USAID contracted the Chemonics AMAP/Microfinance Consortium as part of a 3-year initiative to conduct research, establish best practices and create new tools and strategies to further the field of microfinance. The first case study undertaken rural and agricultural finance topic area by Chemonics analyzed innovations in rural and agricultural finance in Moldova, including an assessment of utilization of USAID/Moldova's multiple DCA facilities. Since the first DCA loan portfolio guarantee was established in Moldova in 2000, seven local financial institutions have utilized DCA agreements to disburse about 940 loans worth approximately $13 million ($5 million of which is revolving) to micro, small and medium enterprises (MSMEs). Approximately 46% of the DCA guaranteed loans were to enterprises located in rural areas where access to credit was severely limited prior to the establishment of the guarantee. This assessment will be used by USAID to better understand the impact of its DCA guarantee facilities in Moldova, with the broader compilation of case studies helping USAID utilize best practices and successful microfinance methodologies to support farm and off-farm rural microenterprises.

Albania Small Business Credit and Assistance Program (SBCA), 2002 - 2005

To help drive economic growth and boost employment in Albania, Chemonics is supporting small businesses by providing training and advice through the SBCA project. The project targets Albania's most productive sectors, using a cluster approach of grouping businesses by industry. Chemonics is supporting local private banks in lending to businesses in these clusters by providing guarantees to reduce their risk in lending to small-businesses. A non-DCA credit guarantee was designed and installed at one of the banks and resulted in a highly successful SME lending program. Chemonics developed a DCA concept paper exploring the possibility of a five-year, $22 million DCA loan portfolio guarantee split among five banks, to be promoted, monitored, and managed by SBCA in collaboration with USAID/Albania. USAID is now considering a multi-bank DCA loan guarantee program in Albania providing access to finance for large, small and medium enterprises; micro-financing institutions; and municipalities and other local authorities.

Latin America / Caribbean

Colombia Forestry Development Program (CFDP), 2003- 2006

The Chemonics-managed Columbia Forestry Development project is promoting economic and social alternatives to illicit crop production and developing a viable commercial forestry sector in Colombia that will catalyze targeted development efforts in rural, forested areas. To reinvent the Colombian forestry industry into a sustainable driver for economic development and forest conservation, CFDP is working with USAID/Colombia and the Office of Development Credit on establishing DCA guarantees to facilitate private investment in the forest sector. CFDP assisted the Mission in drafting two DCA concept papers. The first is for a planned $8 million loan portfolio guarantee for loans to individuals, families and communities to leverage their earnings from Government payments for not growing coca to establish and grow agroforestry enterprises. The second is a guarantee for a $10 million asset-backed debt security issuance that will help finance a new vertically integrated forestry management enterprise. Detailed development of these DCA activities will take place during USAID's FY 2005.

Peru Microenterprise Support and Poverty Reduction and Alleviation (PRA), 1999 - 2007

Alternative Development. In support of USAID/Peru's mission-wide taskforce on alternative development (AD), DCA guarantees expand the availability of financial resources from private sector sources to finance the process of well-structured and organized crop production value chains. These sources of private capital are diversified among rural savings and loan banks, buyers, and input suppliers. The Chemonics-managed PRA program organizes and facilitates closed-market transactions between these financing sources and small-scale agriculture producers in the AD zones by creating upfront buyer-producer contracts with external financing needed to support the operational costs of the producer. A $12 million total, five-year DCA program, supported by PRA, is guaranteeing loans made by three rural financial institutions for crop producers. This innovative DCA structure is stimulating revenue generation and agribusiness growth in higher-risk regions.

RAISE IQC LAC Bureau Poverty Reduction Task Order, 2001 - 2004

Small scale producers in environmentally sensitive areas of Latin America are receiving needed access to capital through a DCA guarantee facility. Chemonics completed the economic and financial viability analyses for the action package to support a $4 million loan portfolio guarantee for EcoLogic Enterprise Ventures (EEV). EEV operates as a "green" or ecologically enhancing loan fund and under the DCA facility is developing a portfolio of loans from $10,000 to $200,000, targeting small-scale producer organizations. The common goals—biodiversity, conservation and inclusive economic development—are achieved through supporting production of exportable high-quality agriculture-related products. Chemonics assessed the in-country market imperfections facing rural producer groups for coffee and other crops, and addressed methods for overcoming them through EEV's innovative lending methodology for crop and pre-export financing of growers and cooperatives. The Chemonics analysis also confirmed that EEV financing would not displace any financing provided by the private sector to eco-friendly producer groups and that USAID would be the guarantor of last resort. The financial viability analysis examined the EEV institutional financial profile, as well as multiple representative loans in its portfolio, considering a variety of sensitivity factors.

Implementation of USAID/Mexico Microenterprise Strategy, 2000 - 2004

In a country where nearly half of the population lives below the poverty line, the microenterprise sector is an essential source of income for Mexico's poor. To support this sector's growth, Chemonics worked with leaders in the Mexican microfinance industry to strengthen institutions and create a favorable climate for microenterprise development. Chemonics assisted in the design and implementation of two DCA guarantees to expand microfinance in Mexico through the USAID/Mexico Microenterprise Strategy project, under the Financial Services IQC. Chemonics contributed to the economic and financial viability analyses, demonstrating that two credit unions were financially self-sufficient and merited investment to expand their microfinance operations. The analyses helped convince USAID to offer a DCA portable loan guarantee to one credit union and to provide a loan guarantee to an American bank for a $1 million loan to the second credit union for microfinance lending. Chemonics hired a part-time local finance specialist to monitor the DCA agreements and ensure compliance with the terms of the agreements. Both credit unions used loans under the guarantee to promote the safety of their institutions, expanding their long-term deposit base. One credit union successfully negotiated a subsequent loan with the American bank without a DCA guarantee, demonstrating to the market that lending to credit unions is a viable business.

Peru Increasing Microfinance for the Poor (IMPACT), 2002 - 2004

Peru's 3 million microenterprises employ about 75 percent of the country's working population. But only 10 percent of these microenterprises have access to the kind of financial services they need to grow and protect their businesses. To narrow this gap, Chemonics is working to improve Peruvian microfinance institutions and the financial and regulatory environment in which they operate. Under the IMPACT project, Chemonics assisted USAID/Peru in evaluating $3 million in existing DCA guarantees with a financiera, which is a subsidiary of a major commercial bank. Chemonics conducted an annual review of the DCA results and recommended strategies to expand the utilization impact of the guarantee through a streamlined microlending process.

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Question Sheet

DCA SEMINAR
Case Study 1 Questions

1. What is the development challenge being addressed through this project?

2. Who are the beneficiaries of this DCA guarantee activity?

3. What are the credit market imperfections DCA will help correct through this activity?

4. How does this DCA activity fit in with the Mission's overall strategy?

5. What are the expected outcomes of utilizing a DCA guarantee rather than a grant?

6. Is there a potential demonstration effect from the proposed project? Can the DCA guarantees serve as a catalyst for the local financial markets?

7. How does the DCA guarantee facility complement the Mission's ongoing technical assistance and policy reform efforts?

8. Does the selected lender(s) seem appropriate for the project? Why or why not?

Case 1
Morocco: Microenterprise Finance

SUPPORTING MICROENTERPRISE IN MOROCCO
PORTABLE LOAN GUARANTEE
Development Credit Authority (DCA)

Country: **Morocco**
Sector: **Small/Micro Enterprise**

The following case study represents excerpts from the Action Package submitted to and approved by the USAID Credit Review Board in June 2002.

1. Description and Purpose of Project

USAID is considering a US$1 million portable loan guarantee for Al Amana, a local microfinance institution (MFI), to expand operations and meet the need for micro-finance lending in Morocco.

2. Background and Rationale for Project

It is estimated that there are 1.2 million microenterprises in Morocco; however, less than a dozen micro credit associations (MCA) in Morocco provide credit to this market. Currently, MCAs reach only 55,000 primarily urban clients. In rural areas, microenterprise services are virtually non-existent. While the private banking sector has the capacity to finance the ongoing growth of the microfinance industry, banks remain reluctant to lend to either microfinance institutions (MFIs) and micro and small enterprises in the formal sector. USAID/Morocco is actively addressing this issue by providing portable guarantees to local MFIs.

Al Amana is a local MFI with the stated goal of promoting microenterprise development and strengthening by making loans to traders, craftspeople, and other small businesses in urban areas of Morocco. The organization provides access to credit for all microentrepreneurs who are excluded from commercial banks and traditional bank institutions. The MFI is considered one of the strongest in the country generating positive returns, meeting operational self-sufficiency, and maintaining a capable management team.

Al Amana is seeking the Moroccan dirham equivalent of a US$1 million loan portable guarantee from DCA to expand operations. The proposed facility will allow Al Amana to approach private lenders to access capital for loans to clients, and also will allow support of diversification of funding sources. This project is inline with USAID Strategic Objective 5: "Increased Opportunities for Domestic and Foreign Investment."

3. Collaboration with Other parties and Existing or Planned Technical Assistance

USAID entered the microfinance sector in Morocco in 1996 with a two pronged strategy: 1) establish a microfinance institution that would become a sustainable, large-scale provider of microfinance, and 2) to help foster a policy environment favorable to the growth of a professional microfinance sector. To meet goal number one, USAID founded and capitalized Al Amana through a technical assistance project implemented by Volunteers of Technical Assistance (VITA). VITA continues to provide technical assistance to Al Amana with funding from USAID. To meet goal number two, USAID facilitated the adoption of a new microfinance law in 1999 that permitted NGOs to provide micro-credit services in Morocco and freed them from the interest rate caps levied on banks as well as the law's revisions in 2003 that permitted microlending for housing and home improvements. USAID continues to support dialogue between the practitioner community and the government related to Morocco's microfinance legislation.

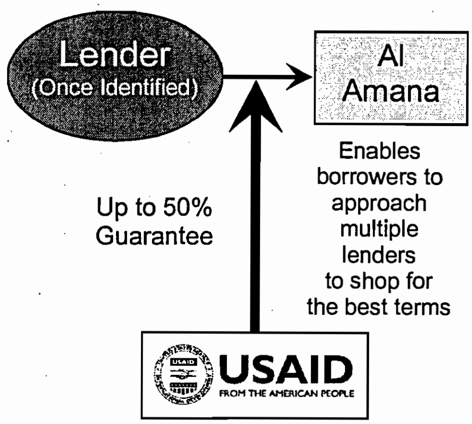
4. Financial Intermediary

While the portable guarantee will allow private banks to share financial risk with the US Government, this financial tool offers al-Amana the flexibility to "shop" around for the best deal. This could increase competition among private banks as the guarantee provides an incentive for banks to test the microfinance market. It is expected that organizations like Al Amana will eventually reduce their need for guaranteed financing as the banking sector recognizes them as sound investment options to increase microfinance in Morocco.

The DCA guarantee will cover 50 percent of the loan principal with a 4-year term. The lender will be required to pay an origination fee equal to 0.50 percent of the maximum cumulative guaranteed portion. In addition, USAID will change an annual utilization fee of 0.75 percent on the average of the beginning and ending balance of the guaranteed portion.

5. Borrower

DCA will extend a $1,000,000 portable loan guarantee to Al Amana, one of the leading micro finance institutions (MFI) in Morocco. The organization makes loans to traders, craftspeople and other small businesses in urban areas in Morocco, and maintains a customer base of approximately 52,000 clients, representing over 10,000 solidarity groups. Al Amana is serviced through a network of 82 satellite offices. The MFI is considered one of the strongest in the country generating positive returns, meeting operational self-sufficiency, and maintaining a capable management team.



Since its creation in 1997, Al Amana has been primarily dependent on USAID for funding. In 2000, the institution moved towards diversifying its funding sources, but was still dependent on contributory funding (USAID and Fonds Hassan II). The DCA portable guarantee facility will not only allow for diversification of funding through commercial borrowings but it will also allow further development and growth of the institution.

6. Intended Beneficiaries

The guarantee facility will allow Al Amana to approach private lenders to access capital for on-lending to clients. This will provide it with additional loan capital and will likewise strengthen the institution by supporting the diversification of its fund sourcing.

The end beneficiaries of the guarantee facility will be the clients of Al Amana – traders, craftspeople, and other small businesses in urban areas of Morocco. With additional capital for on-lending, Al Amana will be able to provide greater access to credit for all men and women microentrepreneurs who are excluded from commercial banks and traditional bank institutions.

7. Illustrative Terms of the DCA Activity

Guaranteed Party	Al Amana
Type of Guarantee	Portable Loan Guarantee
Amount of Maximum Portfolio ($)	US $1,000,000
Maximum Cum. Disbursements ($)	NA
Amount of Guarantee Ceiling ($)	US $500,000 (Moroccan Dirham Equivalent)
Level of Guarantee Coverage (%)	50%
Term (in Years)	4 years
Fees: Origination Utilization	Origination: .5% of the guaranteed portion of the maximum portfolio amount Utilization: .75% per annum of the guaranteed portion of the average outstanding balance
Currency (Local or US$)	Moroccan Dirham

8. Market Imperfections

There is an unmet need for microfinance in Morocco. It is estimated that there are 1.2 million microenterprises eligible for microcredit in Morocco. As of year 2000, however, there are less than a dozen micro credit associations (MCA) in Morocco reaching around 55,000 clients.

In addition, banks are unwilling to provide sufficient microfinance services: The private banking sector has the capacity to finance projects that could bring about sustainable economic development to the country. Banks currently maintain excess liquidity totaling more than US$6 billion.

9. Additionality

The DCA portable loan guarantee will not displace private sources of financing mainly due to banks' current reluctance to invest in microfinance services. USAID's partial guarantee will initially reduce bank risk, allowing Al Amana to demonstrate its ability to repay loans, and gradually increase lender confidence in the potential viability of microfinance in Morocco.

The Moroccan government established a legal foundation for microenterprise activities through reforms enacted in 1999 to provide greater legitimacy to this field. These reforms included the establishment of a federation of microcredit associations, a board of ethics, and a variety of consumer protections. The Moroccan government, however, provides little or no financial incentives or tools to foster private sector investment in microenterprise. As such, little or no effort is made by private banks to explore and structure financial tools to microenterprises. Therefore, USAID is the guarantor of last resort.

DCA SEMINAR
Morocco Small/Micro Enterprise
Case Study 1 Questions

1. What is the development challenge being addressed through this project?

   There is a need for micro-finance lending because banks remain reluctant to lend to either microfinance institutions (MFIs) or micro or small enterprises in the formal sector. The challenge of increasing access to credit for all microentrepreneurs excluded from commercial banks and traditional banking institutions will be addressed through this project.

2. Who are the beneficiaries of this DCA guarantee activity?

   Al Amana → (and subsequently the clients of Al Amana will be the end beneficiaries) Microenterprises (traders, craftspeople, other small businesses in urban areas of Morocco)

3. What are the credit market imperfections DCA will help correct through this activity?

   "1. There is an unmet need for microfinance in Morocco: It is estimated that there are 1.2 million microenterprises eligible for microcredit in Morocco. As of year 2000, however, there are less than a dozen micro credit associations (MCAs) in Morocco reaching around 55,000 clients.

   2. Banks are unwilling to provide sufficient microfinance services: The private banking sector has the capacity to finance projects that could bring about sustainable economic development to the country. Banks currently maintain excess liquidity totally more than US $6 billion."

4. How does this DCA activity fit in with the Mission's overall strategy?

   It is inline with USAID Strategic Objective 5: "Increased Opportunities for Domestic and Foreign Investment"

5. What are the expected outcomes of utilizing a DCA guarantee rather than a grant?

   1. USAID is supporting the expansion of MFI activities in the country.

   2. USAID is encouraging private sector involvement in microfinance.

   3. USAID is allowing MFIs to build credit history.

6. Is there a potential demonstration effect from the proposed project? Can the DCA guarantees serve as a catalyst for the local financial markets?

   The portable guarantee will allow private banks to share financial risk with the US Government. This financial tool offers al-Amana the flexibility to "shop" around for the best deal. This could increase competition among private banks as the guarantee provides an incentive for banks to test the microfinance market. It is expected that organizations like Al Amana will eventually reduce their need for guaranteed financing as the banking sector recognizes them as sound investment options to increase microfinance in Morocco.

7. How does the DCA guarantee facility complement the Mission's ongoing technical assistance and policy reform efforts?

   When USAID entered the microfinance sector in Morocco, they intended to 1) establish a microfinance institution that would become a sustainable, large-scale provider of microfinance and 2) to help foster a policy environment favorable to the growth of a professional microfinance sector. The DCA portable guarantee facility will not only allow for diversification of funding through commercial borrowings, but it will also allow further development and growth of the Al Amana institution. This financial tool will enable Al Amana to "shop" around for the best deal, which could increase competition among private banks with the establishment of an incentive for banks to test the microfinance market. Increased incentive and subsequent competition may lead to eventual growth and sustainability of the microfinance market overall.

8. Does the selected lender(s) seem appropriate for the project? Why or why not?

   The Lender is to be determined. Al Amana will "shop" around for the lender with the best rates and terms, therefore it cannot be determined if they are appropriate for the project yet.

Case 2
Egypt: Private Sector Participation in the Water Sector

USAID/EGYPT, LOAN PORTFOLIO AGREEMENT
Development Credit Authority (DCA)

Country: **Egypt**
Sector: **Water**

The following case study represents excerpts from the Action Package submitted to and approved by the USAID Credit Review Board in June 2003.

1. Description and Purpose of Project

This DCA Loan Portfolio guarantee will facilitate $40 million worth of private sector lending to private sector companies in Egypt's water and wastewater sector. This activity has significant developmental importance and is expected to contribute to:

- Introducing the utilities and the local financial markets to the concept of private finance and operation in infrastructure.
- Encouraging the extension of local currency loans of suitable maturities for infrastructure projects.
- Demonstrating the viability of the private sector to provide higher quality, lower cost services to the water and wastewater sector.
- Providing cheaper and more extensive water pipe maintenance and better customer service for a service area of 3 million customers.
- Improving water and wastewater services to relieve women and girls from the arduous and time consuming tasks of carrying water to residences and disposing of wastewater.
- Expanding the growth of number of small to medium size business that will comprise a large percentage of the service contractors for water and wastewater utilities.
- Reducing the GOE role as the sole financier of service delivery in the water and wastewater sector.

2. Background and Rationale for Project

Currently the GOE's annual subsidies to the water and wastewater sector are roughly LE 4 billion per year for capital improvements and LE 300 million per year for operations and maintenance of existing infrastructure. These subsidies represent the financing gap of the existing infrastructure. Capital investments required to maintain services and safety in the water and wastewater sector over the next two decades far exceed the amount of these annual subsidies. Simply, the Egyptian government cannot afford to finance alone the required investments to be made in this sector, and it's highly unlikely that USAID and other donors will be willing to fill in the gap. Therefore, the financing will have to come from higher cost recovery at the utility level and from the private sector investment.

The purpose of the DCA involvement is to encourage greater support for private sector participation in the water and wastewater sector, which is currently limited in Egypt. Some

Egyptian water and wastewater utilities already use private contractors for expansion and major repairs, although the practice is not widespread and is usually limited to service, training, and maintenance contracts. All the utilities receiving USAID technical assistance currently have plans or have expressed their intent to increase private sector participation, seeing the benefits this change would bring.

Activities supported by the DCA guarantee will be directly consistent with the Mission's strategic approach to infrastructure development SpO 18 – Access to Sustainable Utility Service in Selected Areas Increased, and related Intermediate Results, which include:

- Intermediate Result 18.1 Utility Services Enhanced
- Intermediate Result 18.2 Commercialization of Utilities Improved
- Intermediate Result 18.3 Legal and Regulatory Framework Established

Activities designed under SpO 18 are intended to help Egypt transition away from Government- and donor-financed infrastructure by gradually bringing in the private sector for investment and operations. DCA involvement also will indirectly support the Mission's economic policy-related goals of broadening and deepening local capital markets and encouraging a greater role for private sector investment in government activities.

3. Collaboration with Other parties and Existing or Planned Technical Assistance

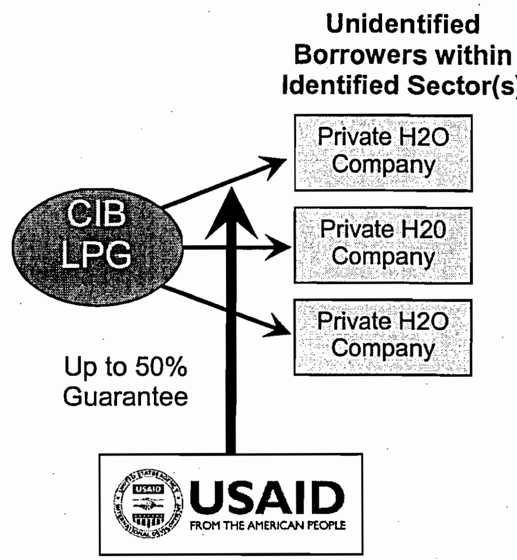
USAID/Cairo also provides extensive technical assistance to Egypt's water sector governing institutions and utilities. Several other donors are actively supporting PSP and financial sustainability in the water and wastewater sector, including the Germans, the EU, and World Bank.

Most of the engineering activities sponsored by USAID/Cairo are scheduled for completion in either 2004 or 2005, and consequently the construction components are entering their final phases. Furthermore, the current Mission strategy is to support policy and institutional reforms that will improve Egypt's ability to expand infrastructure services on a sustainable basis. Therefore, greater emphasis will be included in all remaining activities to support utility restructuring, self-financing, private sector participation, and cost recovery.

For the last 27 years, USAID has helped the Egyptian government to expand water and wastewater infrastructure, to improve the delivery of services, and to ensure that adequate policies are in place to support further development in this area. The Cairo Mission has allocated over $2.8 billion for urban water and wastewater infrastructure activities, benefiting almost 15 million Egyptians. Recently, USAID has emphasized supporting institutional sustainability in the water and wastewater sector, and activities improving financial and operational efficiency, including cost recovery, among the utilities. USAID has also been assisting the GOE in the development of a sectoral policy framework that will encourage prudent and sustainable tariff-setting, responsible regulation of operators, and greater private sector participation (PSP) in water and wastewater. It will also enable the appropriate authorities to finalize a proposed concessions law, establish a water sector regulatory agency, and propose scenarios for financial and institutional restructuring in the sector. A significant part of this assistance will be to provide transaction and promotional support to the Central Department for Private Sector Projects (CDPSP) and the relevant utilities for PSP projects that are financially and operationally viable.

4. Financial Intermediary

DCA will guarantee a portfolio of loans made through the Commercial International Bank of Egypt (CIB), which is the largest private-sector bank in Egypt. CIB was selected as one of the most effective hundred banks in the world and the best in the Middle East and North Africa (MENA) region due to its efficient performance and its high-quality assets.



CIB provides diversified services to multinationals along with local private industrial companies, and has the widest retail network in the country of the private banks. CIB is rated by S&P, Moody's, Fitch, and Capital Intelligence. Most international ratings are at the sovereign ceiling level, local ratings are the highest among all banks in Egypt. Financials for calendar years 2000-2002 are also available. Although CIB is the largest, private sector bank in Egypt, it still is responsible for only about 6% of the market share of total assets and loans as most bank lending is still dominated by the state-owned banks, which lend to the public and quasi-public sector and large, well-established clients.

CIB offers loans longer than 12 months only to their best customers at an interest rate around 13%. CIB prefers to see at least 50% equity contribution from borrowers for project lending, and prefers to have collateralized assets or deposits held at the bank. CIB has limited lending experience in the water and wastewater sector, however, the bank sees the potential for profitable lending in this area, and is extremely motivated to promote their services.

5. Borrower

All qualifying borrowers must be enterprises established under Egyptian law. Borrowers will be private sector companies offering goods and services pursuant to a license, concession or other agreement with a public water or wastewater utility that require financing to start-up operations for a specific PSP activity. Each company may be entirely Egyptian-owned, or have some minority share of foreign ownership. Illustrative businesses may include:

1. Expanded and improved metering through a private sector contractor.
2. Operation of sewage evacuation trucks by a private contractor.
3. Utility service outsourcing to a private contractor.

4. Repair of physical plant, network, or other existing infrastructure by a private contractor.

6. Intended Beneficiaries

The beneficiaries will be water and wastewater sector customers (residential and commercial), the GOE, private businesses and project operators, and the participating bank.

7. Illustrative Terms of the DCA Activity

Guaranteed Party	Commercial International Bank (CIB)
Type of Guarantee	Loan Portfolio Guarantee (LPG)
Amount of Maximum Portfolio ($)	$40,000,000
Maximum Cum. Disbursements ($)	$40,000,000
Amount of Guarantee Ceiling ($)	$20,000,000
Level of Guarantee Coverage (%)	50%
Term of Guarantee (in Years)	12
Fees: Origination Utilization	Origination: 0.25% or $50,000 Utilization: 0.50%
Currency (Local or US$)	Local – Egyptian Pounds

8. Market Imperfections

According to the Egyptian Center for Economic Studies (ECES) Business Barometer, lack of access to credit, ranked by large, private firms in 2000 as the fourth most significant challenge, moved up in 2002 to become their highest priority. Although commercial banks have expressed their interest in lending to the water and wastewater sector, they have not yet done so because of liquidity and credit limitations. Currently banks give priority to large, established clients and to sectors with which they are already familiar and understand the risk, and rely heavily on the availability of collateral, putting little weight on business/project cash flows. Hence it is unlikely banks will explore new sectors without a guarantee.

9. Additionality

This DCA loan guarantee will not supersede private sources of financing. Although Egyptian private sector banks are stronger and more dynamic than the public sector banks, and would like to enter into the infrastructure sector, they have so far been reluctant to do so because they typically avoid lending directly to government utilities and other public-owned entities. Since this DCA activity will only support lending by private sector banks to private sector borrowers, it will not supersede private financing, but instead promote lending in new and profitable sectors of the Egyptian economy. It will also create a demonstration effect for private finance and private provision of services in the infrastructure sectors.

DCA SEMINAR
Egypt H20 LPG
Case Study 1 Questions

1. What is the development challenge being addressed through this project?

   Large subsidies currently represent the financing gap in the existing water and wastewater infrastructure. The Egyptian government alone cannot afford to finance the required investments to be made in the water and wastewater sectors. Financing will have to come from higher cost recovery at the utility level and from the private sector investment, subsequently increasing private sector participation in the water and wastewater sectors.

2. Who are the beneficiaries of this DCA guarantee activity?

   Water and wastewater sector customers (residential and commercial), the GOE, private businesses and project operators, and the participating bank

3. What are the credit market imperfections DCA will help correct through this activity?

   Lack of access to credit – banks have expressed their interest in lending to the water and wastewater sector, but haven't done so because of liquidity and credit limitations. Banks currently give priority to large, established clients in familiar sectors in which they understand the risk. Banks also rely heavily on the availability of collateral, putting little weight on business/project cash flows, which combine to make it unlikely for banks to explore new sectors without a guarantee.

4. How does this DCA activity fit in with the Mission's overall strategy?

   Private sector participation in the water and wastewater sector will help to achieve the Mission's results of enhancing utility services, improving the commercialization of utilities, and establishing a legal and regulatory; framework.

   Encourage greater support for private sector participation in the water and wastewater sector, which is currently limited in Egypt.

5. What are the expected outcomes of utilizing a DCA guarantee rather than a grant?

   There will be support for policy and institutional reforms that will improve Egypt's ability to expand infrastructure services on a sustainable basis. Emphasis will be placed on supporting utility restructuring, self-financing, operational efficiency, private sector participation, and cost recovery.

   Appropriate authorities will be enabled to finalize a proposed concessions law, establish a water sector regulatory agency, and propose scenarios for financial and institutional restructuring in the sector. Transaction and promotional support will be provided to the Central Department for Private Sector Projects (CDPSP) and the relevant utilities for PSP projects that are financially and operationally viable.

6. Is there a potential demonstration effect from the proposed project? Can the DCA guarantees serve as a catalyst for the local financial markets?

There is a potential demonstration effect from the proposed project. If CIB realizes the anticipated or potential profits within this sector through DCA activity, other banks may follow suit and begin to cooperate with the DCA to increase private sector lending.

DCA guarantees can serve as a catalyst for the local financial markets by encouraging banks to increase their lending to private sector organizations and companies if the demonstration effect is realized.

7. How does the DCA guarantee facility complement the Mission's ongoing technical assistance and policy reform efforts?

   The Mission also aims to help Egypt transition away from Government- and donor-financed infrastructure by gradually bringing in the private sector for investment and operations and has goals of broadening and deepening local capital markets and encouraging a greater role for private sector investment in government activities.

   Appropriate authorities will be enabled to finalize a proposed concessions law, establish a water sector regulatory agency, and propose scenarios for financial and institutional restructuring in the sector. Transaction and promotional support will be provided to the Central Department for Private Sector Projects (CDPSP) and the relevant utilities for PSP projects that are financially and operationally viable

8. Does the selected lender(s) seem appropriate for the project? Why or why not?

   The selected lender, Commercial international Bank of Egypt (CIB) definitely seems appropriate for the project. It was selected as one of the most effective hundred banks in the world and the best in the Middle East and North Africa region due to its efficient performance and its high-quality assets. Additionally, CIB provides diversified services to multinationals along with local private industrial companies, and has the widest retail network in the country of the private banks. CIB currently has limited lending experience in the water and wastewater, sees the profit potential lying inherent within this sector and is motivated to be active and promote their services.

Case 3
South Africa: Housing Development in Inner City Johannesburg

USAID/SOUTH AFRICA, LOAN GUARANTEE
Development Credit Authority (DCA)

Country: **South Africa**
Sector: **Housing**

The following case study represents excerpts from the Action Package submitted to and approved by the USAID Credit Review Board in May 2001.

1. Description and Purpose of Project

USAID/South Africa proposes to utilize DCA to assist in the private financing of the single largest residential development to ever be constructed in the inner city of Johannesburg. The proposed DCA Loan Guarantee will provide partial risk coverage to a lender to lend $4.8 million to a private social housing corporation for the development of a 750-unit moderate income housing development, called "Brickfields" in Johannesburg's Central Business District (CBD).

This DCA guarantee is critical to fostering further private investment in the inner city and to revitalize the CBD, which serves as the economic center of South Africa, and in effect Southern Africa. This activity forms part of a larger public and private effort to revitalize the central business district supported by USAID.

2. Background and Rationale for Project

This DCA activity is consistent and supportive of USAID/South Africa's Strategic Objective 6, "increased access to housing and environmentally sound urban services for historically disadvantaged households."

There is a growing shortage of low and moderate income housing in the GJMC with many people seeking accommodation within the inner city. This location offers more easy access to employment opportunities and social facilities than do the residential townships and burgeoning informal settlements on the periphery of the city. The existing residential stock and social facilities within the inner city are unable to cope with the increased demand resulting in overcrowding and exploitative rentals that contribute to the problems of urban decay.

Over 110,000 households reside in the inner city, with an average monthly household income of $325 which is 63 percent higher than the national average. Employment rates are also higher than the national average with over 280,000 formal jobs located in the inner city. There are an estimated 14,000 informal traders also located in the central business district (CBD). There are approximately 35,000 existing formal housing units in the inner city, the majority being apartments, and the population of Metropolitan Johannesburg is growing at a rate of 3.4 percent per annum.

Efforts to redevelop the inner city have been constrained by high crime rates in the past, but several recent and ongoing activities have resulted in a 45% decrease in inner city crime. These include the creation of the Johannesburg Metropolitan Police Department (JMPD) to supplement the services of the national police force, emphasizing "community policing", installation of close-circuit crime surveillance cameras; and the community has organized Business Against Crime (BAC), comprising CBD businesses and property owners to invest in the community.

JHC has deliberately created a mixed income community in order to avoid creating pockets of poverty. Approximately 70% of JHC building residents receive a government subsidy, which requires that they are families with an income not exceeding R3,500 per month ($437.50), placing them within the bottom 80 percent of income earners in South Africa. Approximately 30 percent of JHC tenants will earn more than this, but generally will earn less than R6,000 per month ($750). JHC buildings have historically had a positive impact on the surrounding neighborhood, with tenants of surrounding buildings starting to make demands on building owners to upgrade their buildings. JHC building tenants also participate in a variety of community development issues such as HIV/AIDS awareness programmes, community policing programs and child care programs.

3. Collaboration with Other parties and Existing or Planned Technical Assistance

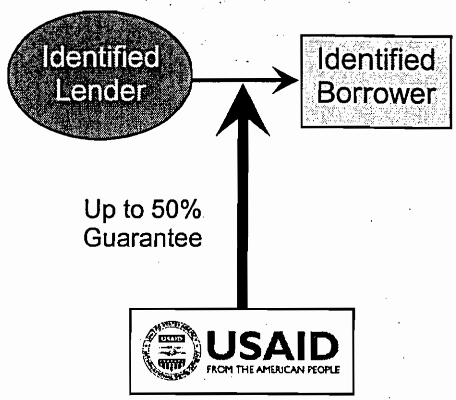
To date, over USAID has provided $2 million in grant resources to assist with the establishment of new public utilities servicing water, sanitation and electricity to support the transformation of Johannesburg. These public corporations are currently exploring a number of alternative delivery mechanisms, including privatization and management contracts, with USAID support. Grant funds have been utilized to privatize the municipal airport, the municipal gasworks and the municipal vehicle fleet. Today, the Greater Johannesburg Metropolitan Council is directly providing nearly half of the services it did four years ago. The remaining balance has been privatized, corporatized, or transferred to publicly held corporations. JHC's housing development is complementary to this earlier USAID assistance.

USAID/South Africa has also provided assistance directly to Johannesburg through an earlier DCA program which complements this project. A DCA Loan Guarantee was structured for an infrastructure investment project in 1999 to demonstrate to private sector investors that the Johannesburg Metropolitan Council (GJMC) was recovering and transforming the way in which it provided services and conducted business. DCA supported transaction leveraged $25 million in investment for capital infrastructure from a large, private South African lending institution. Since that transaction was completed, the GJMC has continued to tap into the private capital market to meet its growing infrastructure backlog.

4. Financial Intermediary

USAID anticipates that the loan will be provided by a private South African financial institution with a Fitch-IBCA credit rating of BBB+ or better. JHC is actively seeking both debt financing and equity investors. JHC is in active negotiations with several potential lenders and it is anticipated that the selection of a lender(s) will be finalized in the coming months. USAID will not formalize the Guarantee Agreement until both the lender(s) and equity partners have been identified.

Terms on the loan will be 15 years with a 24-month grace period for construction. The interest rate will float based on an index under the prime rate that is currently 14.5%. The $2.5 million equity (from a TBD investor) will be used to cover the interest payments during the grace period, and to pay for the initial construction financing. The USAID-guaranteed loan will then be used to finance the balance of construction. It is anticipated that monthly draw downs by JHC on the loan will begin about six months into the construction cycle and all the loan funds will be drawn down by the 24th month.



5. Borrower

The Johannesburg Housing Company (JHC) is a non-profit corporation dedicated to the revitalization of the inner city of Johannesburg. The Company was formed in 1995 to assist in the regeneration of the inner city through the provision of secure shelter, primarily through social or rental housing. To date, JHC has developed 10 properties that are home to over 3,000 downtown residents. Another two properties will be under construction by the middle of 2001 and these units will house another 1,200 residents. Over R42 million ($6 million) has already been invested in inner city properties by JHC. Vacancy rates on their properties are less than 5 percent and the collection rate on rental fees exceeds 95 percent.

JHC's two primary shareholders are the Kagiso Trust and the New Housing Company both of which are not-for-profit corporations. The shareholders agreement commits all parties not to distribute any dividends outside of JHC, effectively making JHC a private company with a social purpose. JHC is now entering the second phase of their business plan, and is seeking to make the organization more financially sustainable through long-term credit to finance construction.

The proposed Brickfields Housing Development will be JHC's largest program and their first non-subsidized loan from a major financial institution. Since 1995, JHC has received a total of R76 million in donor support from a host of institutions including the European Union, and the Flemish Regional Government, USAID and several local charitable trusts. However, it is important to note that each of JHC's individual projects is self-sufficient in terms of having rental income covering debt service and management costs.

The Brickfields site that JHC plans to develop is 2.378 hectares and the land is currently being transferred to the Johannesburg Metropolitan Council. In turn, the Greater Johannesburg Metropolitan Council (GJMC) has committed, in written correspondence (with copies to USAID) that the land will be turned over to JHC at no cost, anticipated to take place by the end of the year. The development will include both commercial and residential properties in a secure and safe environment. A total of 750 units will be developed including 140 studio units, 160 one-bedroom units, 338 two-bedroom units, and 112 three-bedroom units.

6. Intended Beneficiaries

Low and moderate income earners wanting to live in inner city Johannesburg, small businesses seeking to rent affordable commercial real estate in the Central Business District, businesses and general citizenry benefiting from reduction in crime.

7. Illustrative Terms of the DCA Activity

Guaranteed Party	TBD Bank (Fitch-IBCA BBB+ or better)
Type of Guarantee	Loan Guarantee
Amount of Maximum Portfolio ($)	$4.8 million
Maximum Cum. Disbursements ($)	$4.8 million
Amount of Guarantee Ceiling ($)	$2.4 million
Level of Guarantee Coverage (%)	50% of principal and interest
Term of Guarantee (in Years)	15
Fees: Origination Utilization	1.75% origination 0.75% utilization fee per annum
Currency (Local or US$)	South African Rand

8. Market Imperfections

Recently South Africa has experienced tightening in the capital market, and a growing reluctance of the major financial institutions to place resources with alternative development institutions like JHC. Additionally, the location of the project in crime-ridden inner city Johannesburg, is a major constraint to JHC's accessing commercial credit.

9. Additionality

USAID/South Africa and JHC have met with a number of commercial financial institutions and believe strongly that JHC would not be able to obtain commercial financing without a DCA guarantee, and without commercial financing would not be able to undertake this important housing project.

DCA SEMINAR
South Africa Housing
Case Study 1 Questions

1. What is the development challenge being addressed through this project?

   The development challenge is to foster further private investment in the inner city and to revitalize the CBD (Central Business District), which serves as the economic center of South Africa, and in effect Southern Africa. This activity, which seeks to assist in the private financing of the single largest residential development to ever be constructed in the inner city of Johannesburg, will be part of a larger public and private effort to revitalize the central business district supported by USAID. The DCA Loan Guarantee will provide partial risk coverage to a lender to a private social housing corporation for the development of this housing project.

2. Who are the beneficiaries of this DCA guarantee activity?

   The beneficiaries of this DCA guarantee activity will be low and moderate income earners wanting to live in inner city Johannesburg, small businesses seeking to rent affordable commercial real estate in the Central Business District, and businesses and general citizenry benefiting from reduction in crime.

3. What are the credit market imperfections DCA will help correct through this activity?

   This project concerns the importance of housing as a part of the necessary mix to revitalize the downtown of Johannesburg, which has a significant amount of the economic development and job opportunities in southern Africa. Recently, South Africa has experienced tightening in the capital market, and a growing reluctance of the major financial institutions to place resources with alternative development institutions like JHC. Additionally, the location of the project in crime-ridden inner city Johannesburg, is a major constraint to JHC's accessing commercial credit. DCA will help JHC access the credit necessary for this housing development, which is necessary for the revitalization of the CBD.

4. How does this DCA activity fit in with the Mission's overall strategy?

   This project will support the mission's Strategic Objective 6, "increased access to housing and environmentally sound urban services for historically disadvantaged households." Surveys indicate that there is a demand for housing in the area because of the closeness to jobs. JHC has focused on creating mixed income properties, such that the majority of tenants will have monthly incomes not exceeding R3,500 / $437.50 per month, which is within the bottom 80% of income earners in South Africa. 30% of JHC tenants earn more than this, but still generally earn less than R6,000 / $750 per month. In the past there has been a big demand for JHC buildings, and a secondary neighborhood benefit is that nearby landlords have upgraded their buildings to keep up with JHC standards.

5. What are the expected outcomes of utilizing a DCA guarantee rather than a grant?

   Utilizing a loan guarantee provides the outcome of the construction of 750 new housing units in downtown Johannesburg, a demonstration that such a project can be built and successfully leased, and contribute to the revitalization of downtown Johannesburg. However, in addition, a loan guarantee would facilitate the first commercially financed project for the Johannesburg Housing Company (JHC), the non-profit company that is implementing the project, and a

successful project would encourage more commercial access to funds by both JHC and other similar companies. It would also revitalize the financial community's interest in lending into downtown Johannesburg.

6. Is there a potential demonstration effect from the proposed project? Can the DCA guarantees serve as a catalyst for the local financial markets?

   Since this project will establish the largest housing development in the area and is the first project of its kind, it will demonstrate that this type of project can be built and successfully leased, subsequently contributing to the revitalization of downtown Johannesburg. The success of this first commercially financed project for JHC will hopefully encourage more commercial access to funds by both JHC and other similar companies, which may also serve to revitalize (act as a catalyst for) the financial community's interest in lending into downtown Johannesburg.

7. How does the DCA guarantee facility complement the Mission's ongoing technical assistance and policy reform efforts?

   This project apparently is one of a series of projects that is designed to contribute to the revitalization of the downtown. Through grant funding, complementary work is being done in the establishment of new public utilities servicing water, sanitation, and electricity and experimentation is also being done in alternative delivery mechanisms, including privatization an management contracts, with USAID support. There has been considerable foreign donor assistance in development of other aspects of the revitalization, and this deal should continue that juggernaut. Note that the local government is contributing the land for the project. The USAID guarantee will encourage lending of an amount equal to double the guarantee.

8. Does the selected lender(s) seem appropriate for the project? Why or why not?

   The Intermediary is unnamed, but will be a commercial bank with a Fitch-IBCA credit rating of BBB+ or better.

Case 4
Ukraine: Supporting Agricultural Lending in Rural Areas

SUPPORTING AGRICULTURAL LENDING IN RURAL AREAS IN UKRAINE LOAN PORTFOLIO GUARANTEE

Development Credit Authority (DCA)

Country: **Ukraine**
Sector: **Agriculture and Small/Micro Enterprise**

The following case study represents excerpts from the Action Package submitted to and approved by the USAID Credit Review Board in May 2002.

1. Description and Purpose of Project

USAID is considering a $3 million Loan Portfolio Guarantee (LPG) to Nadra Bank, which will use its own resources to extend local currency loans to small farmers and suppliers whose primary clientele are private farmers.

2. Background and Rationale for Project

In 2001, the Government of Ukraine (GOU) launched a major initiative to issue more than 6.75 million land titles, including 1.8 million land titles that will be handed to the rural people with USAID's assistance. It is predicted that at least 20-30% of these new land owners will want to farm their own land. To ensure that the millions of new private farmers have a reasonable chance of success, it is critical that credit at reasonable rates and terms is available to small landholders.

One of the biggest obstacles facing the entire Ukrainian agricultural community is the lack of availability of credit to purchase equipment and inputs, particularly medium- and long-term loans. Small-scale farmers have an even more difficult time than the large-scale farms, many of whom still have access to inputs using investor capital of those in majority positions. Without a source of credit, small private farmers cannot prosper and the land privatization process will flounder as many may decide to lease or sell their land to powerful former farm managers and other oligarchs.

The GOU has tried unsuccessfully to stimulate commercial agricultural lending and influence credit availability, however their interest rate reduction program targeted larger, well-established farms and larger farm-related processors rather than small private farmers. Additionally, even with government interest rate compensation, rates remained high for borrowers.

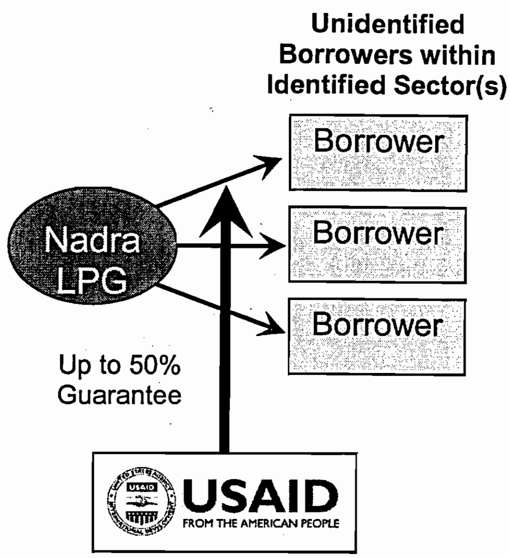
The $3 million Loan Portfolio Guarantee to Nadra Bank will mitigate the perceived high risks of commercial lending and build experience and long-term capacity within Nadra Bank for lending to small private farmers after the term of the guarantee. The DCA activity will significantly contribute towards achieving the intermediate results associated with *SO 1.3 "Accelerated Growth of Private Enterprises in Ukraine"* and *SO 1.4 "A More Competitive and Market Responsive Private Financial Sector"*.

3. Collaboration with Other parties and Existing or Planned Technical Assistance

Both the farmer-borrowers and Nadra Bank need substantial amounts of technical assistance to better understand the agricultural lending process and their respective responsibilities. For this reason and to complement the DCA guarantee, USAID/Ukraine will implement the Rural Credit Project, which will further promote bank lending to small farmers and suppliers by addressing legal and regulatory obstacles, such as excessive loan loss provisioning requirements, prohibitive collateral requirements, and collateral eligibility problems, and by building Nadra bank's experience and capacity for lending to small farmers and plot holders. The project will also provide potential borrowers with access to technical assistance through the EBRD Ukraine Micro Lending Program, the Louisiana Agricultural Extension Services project, and the Center for Private Farmer Training and Outreach.

4. Financial Intermediary

DCA will guarantee a portfolio of loans made through Nadra Bank, which is ranked among the top ten largest banks in Ukraine. The bank has a client base of more than 50,000 businesses and individuals and has successfully provided loans under EBRD credit lines. It also has a wide regional network of branches, is financially sound and has a dynamic and experienced management team. Nadra Bank has adequate experience and expertise in lending to the agricultural sector, however, it has very limited experience with private farm borrowers.



The DCA guarantee would cover 50 percent of the loan principal with a 5-year term. The lender will be required to pay an origination fee equal to 0.50 percent of the maximum cumulative guaranteed portion. In addition, USAID will change an annual utilization fee of 1.00 percent on the average of the beginning and ending balance of the guaranteed portion.

5. Borrower

Borrowers will be creditworthy private farms and household plot holders. A private farm in Ukraine is a legal entity formed and run by a family on the basis of jointly owned land and assets. Private farms rely mainly on family labor and leased resources, with most of the management and work done by the operator and family. They obtain the majority of their income from farming and a close association exists between the household and the business. The majority of private farms in Ukraine were established between 1992 and 1995. As of November 2001, the number of private farms in Ukraine totaled 40,800 legal entities.

Based on the private farm survey conducted by the Louisiana State University Agricultural Center project, an average private farmer has been in operation for around five years. More than 65 percent of farmers are members of private farmers' associations. The major crops produced are wheat, barley, and sugar beets. Additional farming activities include pork and poultry production and cattle raising. Eighty (80) percent of farmers have contacts with large reorganized collective agricultural enterprises and receive some form of technical assistance from them.

Household plot holders typically have 25 sotkas (a sotka equals 100 sq. meters) to 60 ha and typically produce 4 to 5 different types of fruits, 5 to 7 different types of vegetables, and keep 1 or 2 different types of animals. Plot holders with less than 100 sotkas typically live in urban settings and do not rely on the garden plot as their primary source of subsistence and income. Their plots provide incremental earnings only. Plot holders with more than 100 sotkas typically live in rural settings and rely heavily on their plot for subsistence.

6. Intended Beneficiaries

The direct beneficiaries will be small private farms and the families who own and operate them as well as individual private plot holders.

7. Illustrative Terms of the DCA Activity

Guaranteed Party	Nadra Bank
Type of Guarantee	Loan Portfolio Guarantee
Amount of Maximum Portfolio ($)	US$3,000,000
Maximum Cum. Disbursements ($)	US$6,000,000
Amount of Guarantee Ceiling ($)	US$1,500,000
Level of Guarantee Coverage (%)	50%
Term of Guarantee (in Years)	5 years
Fees: Origination Utilization	Origination: .50% of guarantee ceiling Utilization: 1.00% per annum based on average balance of guarantee portion of loans
Currency (Local or US$)	Hryvnya

8. Market Imperfections

The DCA facility seeks to overcome a major obstacle to private enterprise growth in Ukraine, namely the lack of financing for small farmers, particularly for medium and long-term loans. The problem of limited banks' lending to small farmers and plot holders reflects both supply and demand-side market imperfections. Although banks are highly liquid, loans comprise a small percent of assets because of extreme risk aversion resulting from previous banking crises, a dearth of sophisticated credit skills, and legislative and regulatory obstacles, such as limited rights of foreclosure and asset seizure, and the underdeveloped judicial and regulatory systems for enforcement of creditors' rights. Ukrainian commercial creditors prefer more "marketable" property like fixed assets and land. On the part of the borrowers, poor disclosure and lack of transparency hinder banking transactions. This lack of commercial finance continues to be an obstacle to the development of competitive private enterprises in Ukraine and to overall economic and social development in the country. Thus, the proposed DCA LPG is a critical component of the Mission's comprehensive enterprise development program, serving to stimulate domestic lending and encourage greater financial intermediation.

9. Additionality

The proposed DCA facility will not supersede private sector financing. The majority of the capital deployed in the agriculture sector is generated from personal savings of farmers and their families and by current and accumulated earnings and profits of operating businesses. Borrowing, in cash or via barter, from other farms is another source of financing. Banks in Ukraine typically do not loan to small farmers and plot holders because they lack the skills or capacity to do so. Furthermore, farmers do not apply for credit from commercial banks because of stringent collateral requirements and high interest rates.

The proposed DCA guarantee will encourage Nadra Bank (and ostensibly other banks by demonstration effect) to provide loans for small agricultural enterprises in rural areas in Ukraine. It will create a demonstration effect for small scale agricultural finance encouraging other lenders to enter this market. The GOU has been unsuccessful in its attempts to provide incentives to banks to lend to this market to date, and this program would not be possible without USAID intervention.

DCA SEMINAR
Ukraine Agriculture
Case Study 1 Questions

1. What is the development challenge being addressed through this project?

   Lack of commercial finance continues to be an obstacle to the development of competitive private enterprises in Ukraine and, hence, to overall economic and social development in the country, and credit availability for small private farmers is particularly constrained. USAID, in collaboration with the Government of Ukraine issued more than 6.75 million land titles in 2001 and in order for these new land owners to be able to farm their own land, it is critical that credit at reasonable rates and terms is available to small landholders so that they can purchase equipment and inputs, particularly medium- and long-term loans. Without a source of credit, small private farmers cannot prosper and the land privatization process will flounder as many may decide to lease or sell their land to powerful former farm managers and other oligarchs.

2. Who are the beneficiaries of this DCA guarantee activity?

   The direct beneficiaries will be small private farms and the families who own and operate them as well as individual private plot holders.

3. What are the credit market imperfections DCA will help correct through this activity?

   Although banks are highly liquid, banks are reluctant to make a large number of loans due to extreme risk aversion resulting from the 1996 banking crisis, a dearth of sophisticated credit skills, and legislative and regulatory obstacles, such as limited rights of foreclosure and asset seizure, and in general the underdeveloped judicial and regulatory systems for enforcement of creditors' rights. Ukrainian commercial creditors prefer more "marketable" property like fixed assets and land. However, ownership of the land is not yet clear and hence the land market is non-existent, and other fixed assets are often obsolete or worn-out. Borrowers also contribute to the problem with poor disclosure and a lack of transparency that hinders banking transactions.

4. How does this DCA activity fit in with the Mission's overall strategy?

   The DCA activity will significantly contribute towards achieving the intermediate results associated with SO 1.3 "Accelerated Growth of Private Enterprises in Ukraine" and SO 1.4 "A More Competitive and Market Responsive Private Financial Sector".

5. What are the expected outcomes of utilizing a DCA guarantee rather than a grant?

   While a grant could be used to fund technical assistance to the bank to provide advisory services and training to the credit department and management, it is not necessarily a direct incentive to Nadra Bank to catalyze lending to the identified market, and they could simply continue serving their standard clientele. The bank has sufficient liquidity to be making these loans, but requires encouragement in the form of risk sharing to make it comfortable making this type of loan to these borrowers. Since the guarantee is only covering 50% of the risk, the loan officers and credit department have a strong vested interest in ensuring repayment of the loans. This guarantee will also contribute to the impact of the Center for Private Farmer Training and Outreach, in that it will create incentive for Nadra Bank to be meeting the credit needs of the Center's clientele.

6. Is there a potential demonstration effect from the proposed project? Can the DCA guarantees serve as a catalyst for the local financial markets?

   The potential demonstration effect from this project would be increased lending to small private farmers through various other lending institutions once Nadra Bank realizes success and subsequent profit from this project, which will encourage other banks and lending institutions to follow this pattern.

7. How does the DCA guarantee facility complement the Mission's ongoing technical assistance and policy reform efforts?

   The DCA guarantee complements the implementation of USAID/Ukraine's Rural Credit Project, which will further promote bank lending to small farmers and suppliers by addressing legal and regulatory obstacles, such as excessive loan loss provisioning requirements, prohibitive collateral requirements, and collateral eligibility problems.

   Additionally, technical assistance and training, provided through the Center for Private Farmer Training and Outreach, will support the LPG, including:

   - **Farm management techniques focused on profit oriented decision-making and farm financial management skills, including responsibilities for borrowing and repayment.**

   - **Extensive training for banks and individual loan officers in agricultural lending and rural financial services with emphasis on: policies and procedures development; cashflow ag lending; appraisals; client and loan performance monitoring; enforcement of bankruptcy provisions; and warehouse receipts financing.**

8. Does the selected lender(s) seem appropriate for the project? Why or why not?

   Nadra Bank seems appropriate for the project because with this loan, Nadra Bank will gain some of the substantial amount of technical assistance necessary to better understand the agricultural lending process and its respective responsibilities, which will help sustain this lending facility. Nadra Bank is ranked among the top ten largest banks in Ukraine and has a client base of more than 50,000 businesses and individuals. Nadra Bank also already has successfully provided loans under EBRD credit lines and has a wide regional network of branches, is financially sound and has a dynamic and experienced management team. Nadra Bank also has adequate experience and expertise in lending to the agricultural sector and this project will enhance its currently limited experience with private farm borrowers.

TAB 6: DESIGN & DEVELOPMENT
TABLE OF CONTENTS

Chemonics International Inc., 1133 20th St. NW, Washington, DC 20036
Telephone 202.955.3300, Fax 202.955.3400, www.chemonics.com

Presentation: DCA Design & Development

DCA Design & Development

Chemonics DCA Workshop
July 14, 2005

Chemonics International

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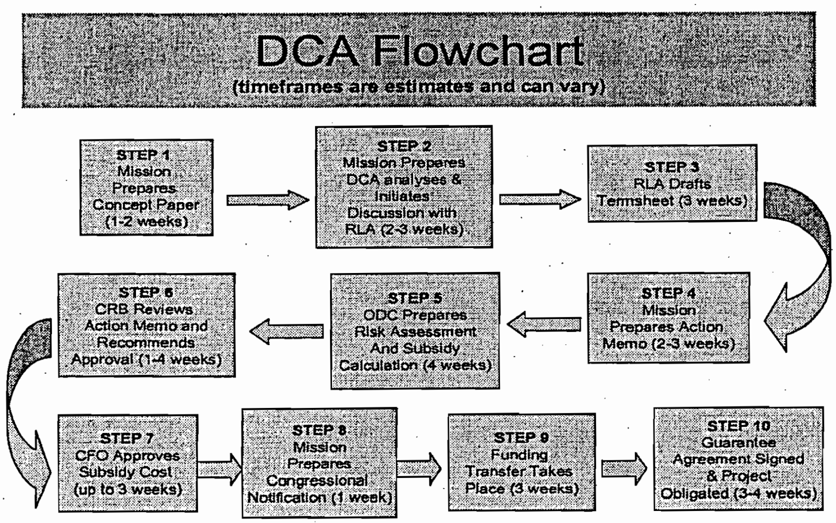
DCA Activity Development



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Step 1 - Prepare Concept Paper

Mission develops a short Concept Paper and send it to their Regional Relationship Manager at USAID/Office of Development Credit. Concept Papers include:

- Description and Purpose of Project
- Linked SOs
- Economic Justification (market imperfections, additionality)
- Financial Institution Information (if available)
- Basic Anticipated Terms
- Preliminary Borrower Information

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Step 2 – Prepare Analyses for Action Package

Activity Description

- Description and purpose of project
- Background and Rationale
- Collaboration with Other Parties
- Financial Intermediary (Lender)
- Borrower(s)
- Intended Beneficiaries (if different than borrowers)
- Related or planned technical assistance

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Step 2 – Prepare Analyses for Action Package

Economic Justification

- Does the proposed activity address in-country market imperfections?
- Does the DCA Guarantee supersede any other private sources of financing?
- Will USAID be acting as the "Guarantor of last resort"?
- How does the activity create "additionality"?

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Step 2 – Prepare Analyses for Action Package

Financial Viability Analysis (now typically done by ODC)

1. Are the assumptions reasonable?
2. Are cash flows positive? Will this activity generate enough income to:
   - -service debt (pay interest),
   - -repay loan principal,
   - -cover operating costs, and
   - -maintain sufficient reserves?
3. Is the Net Present Value (NPV) positive?
4. Will the activity produce an adequate return to investors? Is the Internal Rate of Return (IRR) positive?

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Step 2 – Prepare Analyses for Action Package

- <u>Net Present Value (NPV)</u> = NPV must be positive for DCA Activities.

  NPV is the present value of all cash outflows (investments) and inflows (returns) of a project at a given interest (discount) rate.

  Expenditures and receipts occur over a period of time, so they are discounted to adjust for the time dimension, using the market interest rate or the financial cost of capital to the borrowing entity.

- <u>Internal Rate of Return (IRR)</u> =

  The interest (discount) rate at which the present value of an investment in a project is zero. When this IRR exceeds the prevailing interest rate, the project is deemed to be an attractive investment.

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Step 2 – Prepare Analyses for Action Package

<u>Risk Assessment – Information compiled by Mission but Assessment conducted by ODC</u>

- Past 3 years audited financial statements
- Un-audited interim financial statements to date
- Articles of Incorporation or similar
- List of registered owners by name and ownership %
- List of principal officers and directors and CVs
- Organizational Chart
- 5-year Business Plan
- CAMELS rating or equivalent for financial institutions

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Step 3 – RLA Drafts Term Sheet

Initial Termsheet Prepared and Distributed

- USAID Regional Legal Advisor prepares an initial term sheet and begins to construct legal agreement.
- Lender reviews terms and comments.
- ODC attorney and regional relationship manager can provide assistance.

Best Practice: Involve the RLA early in the process!

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Step 4 – Mission Prepares Action Package

Monitoring Plans - Each DCA Activity must have 2 types of Monitoring Plans:

- Development Monitoring Plan – is similar to monitoring grant or contract activities, and assigns responsibilities to Mission personnel or implementing partners to monitor DCA over life of activity.
- Financial Monitoring Plan – ODC (with help from implementing partners) oversees portfolio and is responsible for ensuring that fees are paid, reporting requirements are met, documenting completion of conditions precedent (when applicable), making site-visits, and closing out the facility upon expiration.

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Step 4 – Mission Prepares Action Package

1. Action Memo
2. Project Information Sheet
3. Activity Description
4. Economic Justification
5. Risk Assessment
6. Subsidy Cost Calculation
7. Financial Statements and Additional Information

This package (along with the Monitoring Plan) will be submitted to the Credit Review Board.

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Step 5 – Risk Assessment

Using the information the Mission has collected, the ODC conducts the risk Assessment.

Risk Assessments analyze 4 categories of <u>Credit Risk</u> which are weighted to produce the **WARF:**

WARF = Weighted Average Risk Factor

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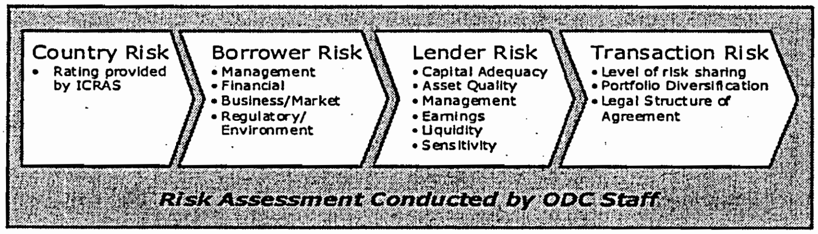
Step 5 – Risk Assessment



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Step 5 – Subsidy Calculation

- The WARF = is run through the *USAID Cash Flow Model* and produces the Subsidy Cost.
- The **Subsidy Cost** is the amount the Mission has to set aside to reserve for any potential defaults, usually varying between 3-9% of the guarantee facility amount.
- The guaranteed party pays a commitment fee (.5-2%) and a utilization fee (.25-2%) to offset the subsidy cost.
- So, a $10 million DCA guarantee facility could cost a Mission $400,000 – equal to **$25 private sector money invested in the economy for every $1 spent by USAID.**

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Step 5 – Subsidy Calculation

The Mission's Subsidy Cost, for a DCA activity, is the expected value of all incoming (fees received) and outgoing (claims paid to DCA partners) money during the life of the guarantee. Subsidy, paid by the sponsoring Mission, is similar to a loan loss provision or insurance premium.

50% of Estimated Loan Defaults	*Less*	Estimated Fees Paid to USAID	=	Subsidy Cost
Cash Outflow		**Cash Inflow**		**Cost to USAID**

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Step 5 – Subsidy Calculation

You cannot affect the country risk rating which is always weighted at 40% and is set by the ICRAS (Inter- Agency Country Risk Assessment System), but you can help Missions reduce their subsidy cost.

Variables Affecting Subsidy Cost

- Risk score (WARF)
- Size of facility
- Disbursement
- Guarantee percentage
- Loss position
- Tenor (Term of the loan or sub-loans)
- Fees: timing and amount
- Repayment profile

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Step 6 – CRB Review

The Credit Review Board will review the Action Package in Washington, DC and recommend CFO approval.

DCA Activities are typically presented by one of the following :

- Mission Director or Other Mission representative
- Bureau representative
- Country Desk Officer

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DCA Design Considerations

- First: Articulate your development objective(s)
- Which one of the 4 DCA Tools (LG, PG, LPG, BG) best accomplishes your objective <u>AND</u> provides a demonstration effect?
- Consider partners and their strategic interests, financial market sophistication, Macroeconomic Conditions, etc.
- Risk Sharing Partners – in an initial creditworthiness analysis - consider size, mandate, experience, financial standing

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DCA Design Considerations

Maximum Cumulative Disbursements

- How much financing do you want mobilized at any given point in time?
- Consider absorption capacity of project, subsidy cost, need for capital

Guarantee Percentage

- With what level of guarantee can you achieve your objectives?
- Consider utilization, bank portfolio, subsidy cost

Term of the Guarantee

What timeframe best achieves your goals?

Fees

Origination

- 0.25% to 2.0% of guaranteed portion of Total Authorized Amount
- Payable one time, 30 days after signing of legal agreement

Utilization

- 0.25% to 2.0% of guaranteed portion of the total outstanding amount
- Billed annually, payable semi-annually

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DCA Design Considerations

Reduce the Risk

- Consider what other ways can you structure the transaction to reduce the risk?
- Is there a third-party guarantor?
- Are Borrowers receiving TA in business management or in a technical area?
- Is TA needed to help the Lender's credit department conduct more thorough credit analysis?

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Some DCA D&D Best Practices

Qualifying Borrowers

- A bit of art and finesse must be used in identifying qualifying borrowers under a Loan Portfolio Guarantee.
- Typically it is better to leave the terminology for qualifying borrowers in legal agreements with lenders broad rather than prescriptive to encourage utilization of the guarantee facility while meeting development objectives.
- Example: "any sized SME in competitive sectors to include tourism, IT, or agribusiness" or "clean technology projects for any size business up to X".

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Some DCA D&D Best Practices

Strategic Partner Lenders

- Select lender partners that have a strategic and compatible interest in moving into the market you are trying to assist in accessing credit.
- Lender senior management must buy-in or resources and attention to lending under the facility may be insufficient.
- The biggest, and best known lenders do not always make the best partners for a DCA guarantee. It's advisable to identify which of a pool of strong lenders might be hungriest to beat out its competitors in a niche business area.

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Some DCA D&D Best Practices

<u>**DCA + TA = Results**</u>

- Ideally, DCA should be paired with targeted technical assistance to:
  - <u>Potential borrowers</u> - identify projects, develop business plans, prepare loan applications, increase management skills.
  - <u>Lenders</u> - develop credit analysis and cash flow lending skills, undertake new product development, upgrade systems.
- TA can be provided through an existing or planned USAID contract, other donor project, or through local subcontractors, or NGOs.

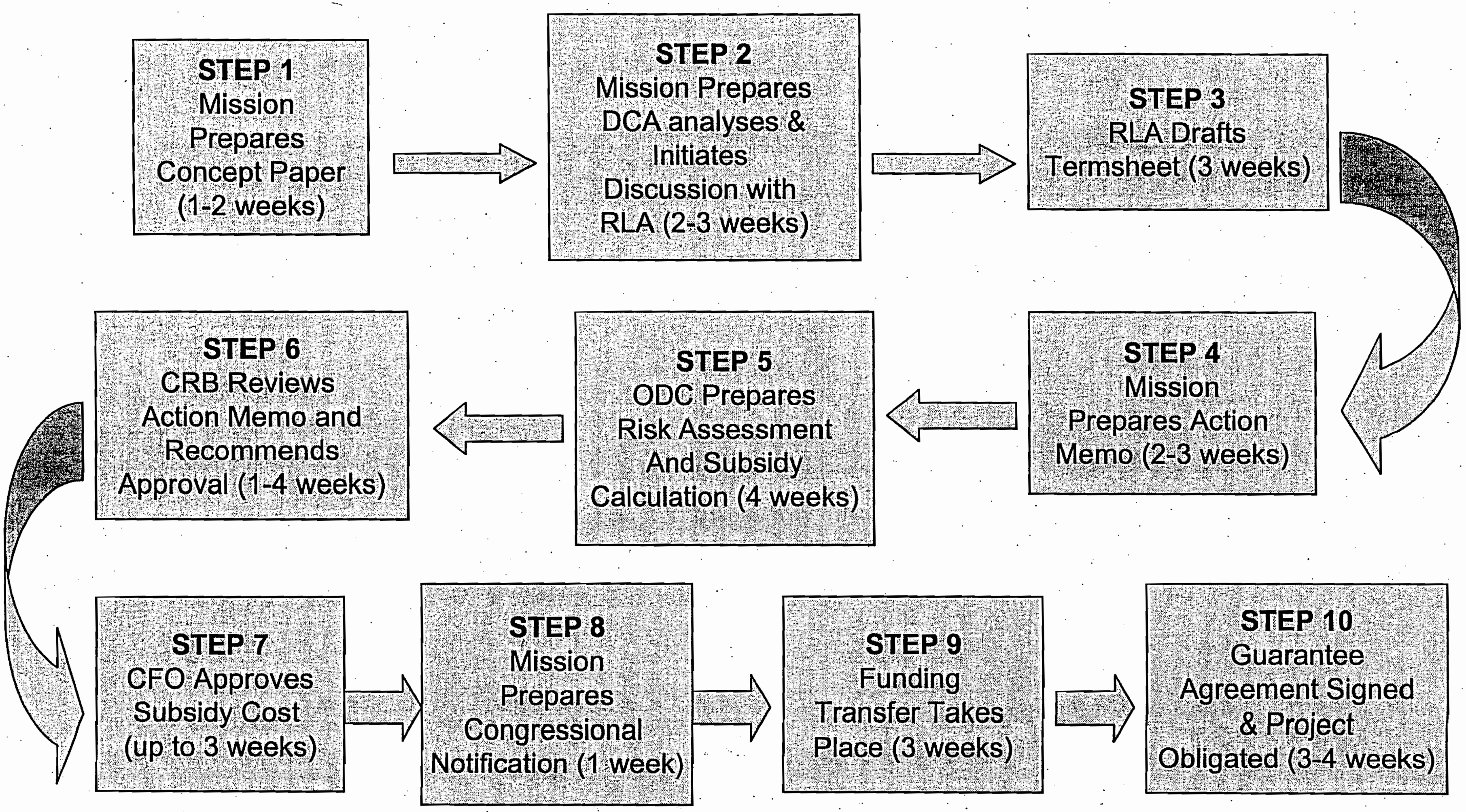
Some DCA D&D Best Practices

- Lenders want to know about the market and the <u>profit potential</u> – present a few illustrative projects and their financials when approaching them regarding DCA.
- Lenders will pay a reasonable fee for guarantee coverage to mitigate their risk and potentially reducing their reserve requirements, while they learn about a new market – aim the mid-range for fees.
- Start with the terms "partial coverage" and work from there
- Lenders will accept in some cases less than the maximum 50% guarantee coverage allowable under DCA, and even the slight reduction to 40% reduces the subsidy cost a Mission must pay.

DCA Process Flowchart (larger version)

DCA Flowchart

(timeframes are estimates and can vary)



2005 Concept Questionnaire Cover Letter from USAID/ODC

To: Those developing DCA or interested in credit guarantees
From: John Wasielewski, Director, Office of Development Credit (ODC)
Date: December 10, 2004
Subject: Introduction to New Changes in DCA Documentation

As part of our commitment to continuously improving our operation and providing better field support and technical assistance to the Missions, the Office of Development Credit (ODC) has planned a series of changes and simplifications with regard to the process and documents for you to follow and use in your development of DCA projects.

Our goal at ODC is to further streamline the DCA process so that you can use these tools/documents with greater ease and achieve your SOs more effectively through credit mechanism wherever appropriate and leverage your financial and human resources. Let me give you a few specifics of how we hope to reach this goal:

- We are standardizing the Mission information gathering process to ensure a smooth and transparent process.
- We are eliminating the need for you to conduct Financial Viability Analysis (FVA). We will do that here at ODC and incorporate FVAs into our risk assessment. (For this, of course, we will continue to need cooperation and assistance from you.)
- We have simplified the process and documents. As a first step, we have designed a *Concept Document*. We have attempted to keep the document simple, relatively short and easy to complete and yet give ODC enough basic information to make a preliminary determination. Once the Concept Document is reviewed and proves to meet ADS requirements, we would request additional information from you.
- We will make the Action Package more compact and less voluminous.
- We are redoubling our efforts in developing and designing training programs for financial institutions and other DCA partners in the field to help promote their participation in your programs and to ensure maximum realization of the DCA value.

We are introducing to you four documents: (1) the Concept Document, (2) the new Action Package template, (3) the pre-risk assessment info request, and (4) a sample scope of work to assess loan portfolio guarantee borrower risk. To avoid proliferation of documents, the Concept Document will be all that would be required at the beginning of the project development phase whether you are seeking a Loan Portfolio Guarantee, Loan Guarantee, Bond Guarantee or a Portable Guarantee.

Below is a general description of the new process with respect to the document flow.

Step 1	Mission develops DCA concept and submits **Concept Document** to ODC
Step 2	ODC (PD, PM, RA) reviews **Concept Document**; if necessary, informally requests additional information
Step 3	a. If project appears to meet ADS and does not present glaring weaknesses from a risk or portfolio management perspective, ODC sends Mission guidance on preparing the action package (**Action Package template**) and gathering information for the risk assessment (**pre-RA info request & sample LPG Scope of Work**). b. If project fails to meet ADS (e.g., borrower is a sovereign) or presents significant, easily identifiable risk or portfolio management issues, ODC outlines those issues for the mission and suggests redressing such concerns prior to further action
Step 4	Mission submits **Action Package** and gathers information requested by risk management team **(pre-RA info request)**
Step 5	a. Risk Assessment Team completes risk assessment within 8 weeks of receiving info contained in info request b. Portfolio management team sets **monitoring plan** with Mission
Step 6	Submit **Action Package** to CRB

Please do let us have your feedback so that we can continue to modify our procedures and documents for your convenience.

2005 Concept Questionnaire

OFFICE OF DEVELOPMENT CREDIT

Concept Document

For DCA Loan Portfolio Guarantee and Loan, Bond, or Portable Guarantee

1. Project Management Information

a. Mission/Bureau:

b. Project manager name: **Title:**

Email: **Phone:** **Fax:**

c. Funding: amount available for DCA credit subsidy:

d. Date obligation expected:

e. Name of the RLA:

2. Project Description and Development Analysis Information

a. Brief Project Description:

b. Linked SO(s):

c. Economic justification. Please address the following in a few sentences:

- **Market imperfections)**
  (Specific barriers that discourage entry of new credit or suppliers.)

- **Additionality** (Will the DCA guarantee help create additional credit availability not replacing or competing with existing source of financing?)

3. Financial Institution (FI) Information, if available

a. Name & Address:

b. Contact person name: **Title:**

Email: **Phone:** **Fax:**

c. Is the FI majority owned by the private sector? Yes ___ No____

d. Is the FI present or past DCA partner? Yes ___ No____

e. Has the FI been profitable in:

Last Fiscal year? Yes ___ No____

Year before? Yes ___ No____

Two years before? Yes ___ No____

f. Has the FI been audited in:

Last Fiscal year? Yes ___ No____

Year before? Yes ___ No____

Two years before? Yes ___ No____

g. Has the FI been rated? Yes____ No____

h. If yes, please give the name of the rating agency:

4. Basic Anticipated Terms

a. Type of guarantee. Check one: LPG ( ) LG ( ) BG ( ) PG ( )

b. Total facility amount (i.e., total credit to be disbursed):

c. Term of guarantee:

d. USAID guarantee percentage:

e. Guarantee ceiling (maximum USAID liability):

f. Final date for disbursing qualified loans under the guarantee:

g. Guarantee expiration date:

h. Currency of loans, is there a mismatch?

i. Estimated pricing – interest rate, fees:

j. Basic anticipated credit criteria for asset class (e.g. collateral requirements, credit history):

If an Loan Portfolio Guarantee, please provide the following additional information

a. Estimated Loan size (minimum, maximum, average):

b. Estimated average maturity (months: minimum, maximum, average):

c. Estimated number of borrowers:

5. Borrower Information:
Complete this section for loan portfolio guarantee (LPG) or bond guarantee (BG) with multiple end-borrowers. If applying for other products, skip this section and go to the next section.
(Kathleen, I noted that there was a case in Tamil Nadu, India where the bond guarantee was used for multiple borrowers (small and medium sized municipalities). That's why I have added BG in this section also. However if you think, this kind of BG's are few and far between and want to keep the Concept Doc simple, then, we can do without putting BG in this section. Please let me know your decision.

a. What is the borrowers' industry sector?

b. How are they meeting their current financing needs?

c. Average loan size:

d. Average loan term:

e. Purpose of the loan: Working capital ( ) Asset purchase ( ) Other ( )

f. Has this group borrowed from any FI in the past? Yes____ No_____

g. Has there been a study on the borrower group or the industry sector? Yes____ No_____

h. Have the borrowers received or are receiving any technical assistance? Yes____ No_____

i. If the answer is yes to h, please give a very brief description of the assistance and the length of the assistance: (Kathleen: I noted in the conference that right kind of TA played a very important role in helping borrowers become viable business entities capable of repaying the loans. A bit more info about the TA may be of help in ODC for determining if the project gets an initial go or not.)

6. Borrower Information:
Complete this section for loan guarantee (LG), bond guarantee (BG) for a single borrower, or portable guarantee (PG). If applying for loan portfolio guarantee (LPG), skip this section. (Kathleen, this will depend on your decision on 5 above.)

a. Borrower Name and address:

b. Contact person name: **Title:**

Email: **Phone:** **Fax:**

c. Primary Business:

d. Date Established:

e. Legal form:

f. Last full year **Revenue:** **Profit:**

g. Purpose of the loan: Working capital ( ) Capital purchase ( ) Other ( )

h. Has the borrower have experience in the purpose area? Yes____ No___

i. Does the borrower have present/past borrowing experience? Yes____ No___

j. Is the borrower present/past DCA partner? Yes____No___

Date Submitted: **Date Reviewed:**

2005 Action Package Template

PLEASE NOTE THAT THE RISK ASSESSMENT FOR THIS ACTION PACKAGE CONTAINS CONFIDENTIAL INFORMATION. DO NOT CIRCULATE THIS ACTION PACKAGE TO ANYONE UNLESS THE RISK ASSESSMENT IS OMITTED.

[Date]

ACTION MEMORANDUM

TO: Lisa Fiely, Chief Financial Officer

FROM: David Ostermeyer, Chairman of the Credit Review Board

SUBJECT: CRB Recommendation for Approval of Development Credit Authority Activity in [Country]

As described in the attached documents, USAID/[Mission] intends to sign a [bond/loan] guarantee agreement with [guaranteed party] in [country] in support of the Mission's [Strategic Objective.] To successfully implement this agreement, EGAT/DC and USAID/[Mission] have designed a Monitoring Plan and agree to adhere to the responsibilities as outlined in that document. The Credit Review Board has reviewed this transaction and found that the risk has been appropriately assessed and that there is reasonable assurance of repayment of the obligations covered by these guarantees. Furthermore, the CRB has approved the subsidy cost to be associated with this activity and believes the Office of Development Credit has adequately provisioned for the risk entailed in this prospective agreement.

<u>RECOMMENDATION</u>

That the CFO sign below and thereby approve the findings of the Credit Review Board and the recommendation of the Chairman of the Credit Review Board with regard to this activity.

Approval:

_______________ ____
Lisa Fiely Date
CFO

[Mission/Bureau] Approval:

_______________ ____
NAME [Date]
[Mission/Bureau] [Dir./DAA}

<u>Attachments</u>:
I. Project Information Sheet
II. Activity Description
III. Economic Justification
IV. Risk Assessment
V. Subsidy Cost Calculation
VI. Financial Statements & Additional Information
CC: CRB Members, RLA

Attachment I: Project Information Sheet
U.S. Agency for International Development

To be completed by Mission/Bureau

Project Identifier:	[Shorthand identifier for the activity, e.g., the name of the primary counter-party]

Country **Mission/Bureau Program Officer** **ODC Relationship Officer**		**Mission/Bureau Investment Officer**	
	Recommend Approval:	**Chief Risk Officer**	Kathleen Wu

Type **Lender(s) /Guaranteed Party** (incl. contact information)		**Guarantee Number**	

Borrower(s)	

Mission SO(s) Supported by Activity
Sector
Activity Description *(one paragraph)*
Performance Indicators *(Please provide a list of key measures of the benefits and performance of this activity)*

Target timeframe for obligation **Subsidy funding source** *(expiration date, type, source)*	

[To be completed by Office of Development Credit Risk Management Team]

Max. Cum. Disbursements ($) **Term** *(years)* **Interest Rate (%)** **Revolving?** **Initial Disbursement** *(year)*		**Guarantee currency** **Type of Risk sharing** **Guarantee percentage** **Guarantee ceiling ($)** **Payment guaranteed**	

Attachment I: Project Information Sheet
U.S. Agency for International Development
[Project identifier]

Notes on transaction terms & claim requirements	

Commitment Fee ($) **Utilization Fee (%) p.a.**		**Util. fee payment Basis**		**NPV ($)**	

For Loan Portfolio Guarantees (LPGs)		**For Bond Guarantees**	
Est. number of sub loans **Est. avg., sub-loan maturity (years)** **Est. avg. size of sub-loans ($)** **Max. auth. Portfolio Amount ($)** **Final year of loan disbursement**		**Type** **Coupon (%)** **Trustee** **Investors** **Secondary Investors**	

Subsidy Cost	$	%	**Net Defaults**	%	**Fees**	%	**Single effective rate**	.%

Risk Score		**Expected cum. Default rate**	%
Country	# (%)	**Borrower**	# (%)
Lender	# (%)	**Transaction**	# (%)

Key Risk Factors: *Brief list of key factors (e.g., nature of the lending activity, specific management concerns, sectoral concerns, etc.)*

Special conditions for approval:

Attachment II: Activity Description
U.S. Agency for International Development
[Project identifier]

Please provide a short description of the activity by either inserting the project concept paper or following the outline below. This section should be no longer than 2-3 pages.

Please ask EGAT/DC for examples.

Please keep in mind, the developmental rationale for the activity is not submitted to the Credit Review Board for approval; it is included in the Action Memorandum simply as a reference.

Suggested Outline for DCA Project Proposal

I. Description and Purpose of Project (briefly describe what the Mission or Operating Unit proposes to do and why)

- *Background and Rationale for project*
- *Collaboration with Other Parties, e.g., Donors, NGOs, Contractors, etc.*
- *Financial Intermediary (provide brief background)*
- *Borrower (provide brief background)*
- *Intended Beneficiaries (if different from borrower)*

II. Related existing or planned technical assistance

Attachment III: Economic Justification
U.S. Agency for International Development
[Project identifier]

Please provide a short (no more than one page) justification for the activity in light of the economic conditions in the target country. Please directly address the points raised below.

Market imperfections

Please desc. how this activity will address market imperfections. The term 'market imperfections' refers to market conditions that lead to shortfalls in the supply of a particular good or service vis-à-vis demand. Market imperfections refer to specific barriers that discourage or prevent the entry of new suppliers.

Additionality

Please desc. the extent to which the activity will supersede or compete with private sources of financing as well as whether the project is possible without DCA support. DCA projects should not displace demand for capital and debt financing that could be met by the private sector. A project can be justified by confirming that the overall commercial banking sector is unwilling to participate in the proposed lending activity without a guarantee.

Attachment IV: Risk Assessment
U.S. Agency for International Development
[Project identifier]

Provided by the Office of Development Credit.

Attachment V: Subsidy Cost Calculation
U.S. Agency for International Development
[Project identifier]

Provided by the Office of Development Credit.

-

Insert supplementary information

2005 Loan Portfolio Guarantee Borrower Report
Sample Task Order

SECTOR ASSESSMENT IN PREPARATION FOR A DEVELOPMENT CREDIT AUTHORITY PORTFOLIO GUARANTY PROJECT

Model Task Order

Task Title: [insert]
Deadline: [insert]
Level of Effort: [Not to exceed 14 days of one (1) Mid-level specialist]

Background

[Short general description of the loan portfolio guarantee project (one paragraph)]

Scope of Work

The primary objective of this task is to carry out secondary research for USAID/[Mission]. The product of this research will inform the development and assessment of a Development Credit Authority activity.

The task entails providing background research on [sector] in [country]. The objective is to produce a short report and compilation of relevant research on the creditworthiness of [sector] in [country]. While the scope of this research is necessarily broad, the final product should selectively focus on only the key strengths and weaknesses exhibited by the targeted sector.

The contractor should rely heavily on secondary source information including, for example, existing research produced by the World Bank and other donors.

The study should canvas the analytical framework below and focus on the key broad issues that

1. Drive financial performance of [sector] in [country];
2. Affect the creditworthiness of [sector] in [country];
3. Mitigate or exacerbate risk (operational, financial, political, etc.) for [sector] in [country].

Broad framework for analysis

I. Industry/Market
    a. Scope and maturity of market
    b. Structure of market (size and type of buyers and sellers; e.g., small number of large producers, large number of small buyers, etc)
    c. Backward and forward linkages

d. Key competitive factors
e. Prospects for growth
f. Seasonality of the industry
g. Elasticity of demand in the industry/market
h. Strengths, weaknesses, opportunities and threats
i. Pricing determinates
j. Market trends
k. Degree of sophistication and technical skills required
    i. Production processes
    ii. Labor force

II. Corporate governance
    a. Corporate governance/management capacity in market
    b. Use of outside auditors (common? Infrequent? Independent?)
    c. Typical ownership profile

III. Legal & regulatory environment
    a. Current role of government in market
    b. Economic and political significance of market to government
    c. Relevant environmental or other regulations
    d. Ease of titling
    e. Collateral laws/system; Perfection of liens, etc.

IV. Financial assessment
    a. Credit climate
        i. Availability and terms of debt capital
        ii. Extent and profile of existing [sector] borrowing
        iii. Non-performing loans levels in [sector]
        iv. Estimated default rate in [sector]
    b. Equity capital availability
    c. Profitability
    d. Working capital requirements
    e. Capital requirements and expenditure patterns

Be advised that it is beyond the scope of this task to provide a comprehensive assessment of [sector] across the broad analytical framework provided above. The analyst should rely heavily on secondary research to determine primary areas of strength and weakness in [sector] with regard to debt repayment capacity and then focus the analysis on those areas.

Deliverables

1. Short informal report (5-10 pages) summarizing the conclusions of the research covering the broad framework above with regard to the major factors contributing to [sector] creditworthiness in [country]
2. Recommendations for appropriate sector-specific credit criteria (guidelines/standards) as (i) used by successful [sector] lending operations

in the target market; and (ii) reflective of the strengths and weaknesses in the target borrower cohort.

3. Bibliography of relevant research

The deliverables will be used

I. In the risk assessment of the project conducted by the Office of Development Credit;
II. To better structure the proposed lending program to the needs of the [sector];

Level of Effort

Not to exceed 14 days of one (1) mid-level specialist.

2005 Financial Institution Information Request Template

Information Request & Document Checklist
U.S. Agency for International Development
[Project identifier]

The following list is a template. This request should be tailored to the specific project as necessary prior to submitting it to the operating unit for action. Please remove requests for information already received in the concept form.

Lending Institution(s) Information

1. CVs of senior management team (principal officers and directors)
2. Organization chart
3. List of registered owners by name and percentage of ownership (if publicly listed, note % held by public)
4. Present, past use of DCA guarantee, if any (CMS reports)
5. Attach audited financial statements (with footnotes) and annual reports for past three years, plus most recent interim financial report
6. Three to five year business plan, if available
7. Rating by a recognized rating agency, if available
8. CAMEL rating/analysis by the central bank, if available
9. Additional information as requested by the Risk Management Team per the specifics of the project
10. A detailed description of the lender's asset quality classification policies.
11. In addition, please fill in the following tables if applicable and if this information is not available in the audited financial statements of the bank:

Classification*	2004	2003	2002
Gross loans			
a. Performing			
b. Special Mention			
Total performing loans (a + b)			
c. Sub-standard			
d. Doubtful			
e. Loss			
Total non-performing loans (c + d + e)			
Accrued interest as % of total non-performing loans			

*If the lender uses a different set of classification standards than those above, then please provide a breakout of performing and non-performing loans per the lender's classification standards.

Information Request & Document Checklist
U.S. Agency for International Development
[Project identifier]

Information reported to central bank	2004	2003	2002
Risk-weighted assets			
Capital adequacy ratio (CAR)			
Liquidity ratio			

Brief description of existing and/or planned complementary technical assistance program

Borrower Information (this applies only to non-loan portfolio guarantee projects; for LPG projects, please ask your relationship manager what borrower information will be required)

Borrower information (please attach or provide the information and documents requested below):

a. List of registered owners and percentage of ownership
b. Senior management (CVs)
c. Year Established
d. Number of Employees
e. Legal form
f. Short history of the company (no more than one page)
g. Primary Business
h. Purpose of loan and use of proceeds
i. Experience in the purpose area
j. Total project cost and detailed breakdown of other sources of debt and equity capital
k. Primary source of payment
l. Secondary sources of repayment (if any)
m. Present/Past Borrowing experience, if any
n. Present/past DCA guarantee experience, if any
o. Brief narrative on additional relevant information and special considerations
p. Borrower Business Financial Statements/Tax Returns (3 years)
q. Borrower Personal Financial Statements/Tax Returns (if necessary)
r. Borrower Business Plan
s. Cash Flow projections
t. Discussion of key cash flow assumptions (e.g., input costs, sales projections, etc.)

Chemonics DCA Fact Sheet

Unlocking the Private Sector's Potential:
Development Credit Authority as a Catalyst for Economic Growth

Sustainable economic growth occurs when financial markets mobilize domestic private capital and put it to work. In developed financial markets, lenders provide needed access to credit to help grow private businesses and expand key development projects. However, broad and deep financial intermediation does not occur in many developing countries where access to credit is a key constraint to economic growth.

USAID's Development Credit Authority (DCA) is a tool to leverage limited donor funds and build local private sector financial institutions in developing countries. DCA catalyzes domestic investment by offering loan guarantees that foster access to credit and longer term sustainable funding sources for financially viable development projects. In countries constrained by a lack of appropriate financial products, services, and markets, USAID's DCA is a key to unlock local credit markets, and limited donor funds are augmented by the unlimited potential of the private sector.

From Africa to Eastern Europe, Latin America, and the Middle East, Chemonics International has significant experience designing and implementing DCA projects. This fact sheet explains the advantages of using DCA, the steps required to initiate a DCA project, and our experience in designing and implementing DCA activities for USAID.

What is the DCA?

DCA is the legal authority allowing USAID missions to issue partial loan guarantees to private lenders to encourage local capital funding of projects. DCA allows USAID to provide the most appropriate mixture of grant and credit assistance to achieve a particular development goal. By offering a guarantee on up to 50 percent of a lender's risk on loans made to single or multiple borrowers, the DCA encourages private lenders to extend financial services to credit-worthy but underserved markets. It also encourages those lenders to offer longer loan terms; reduce collateral requirements; lend at market-based interest rates; and, invest on a sustainable basis in local development efforts in lieu of or in addition to USAID and other donors.

The DCA mechanism requires true private sector risk sharing with the lenders providing loans using their own capital. USAID also receives tremendous budget leverage with the actual cost to missions averaging 5 to 10 cents for every dollar loaned by a private bank or non-bank financial institution. DCA is an extremely flexible mechanism and includes four different tools to enhance credit in a broad variety of situations and environments (see box).

Four Flexible Tools to Make DCA Work For You

Loan Guarantee: Both lender(s) and borrower(s) are identified and lump sum or multiple disbursements are offered. The guarantee provides up to 50 percent coverage on the principal.

Portable Guarantee: Allows the borrower to "shop" around for the best loan term and provides up to 50 percent coverage on the principal.

Loan Portfolio Guarantee: The mission decides on the definition of "borrowers" which can range from a narrow to an all-inclusive designation. The guarantee provides up to 50 percent coverage on a series of loans from a lender or lenders to a pool of borrowers.

Bond Guarantee: This choice offers stronger impact for missions whose objectives also include capital markets development. Issue rating is strengthened and the guarantee provides up to 50 percent principal coverage to potential bond purchasers.

The Most Bang for the Buck: Key Advantages of Utilizing DCA

Helping Private Sector Partners Invest in Development. DCA agreements cover up to 50 percent of a lender's risk, encouraging private commercial banks to lend to enterprises and projects in non-traditional and unfamiliar sectors. DCA is an ideal tool to assist lenders overcoming the perceived risk of loan default to better analyze actual credit risks. Borrowers benefiting from DCA-enhanced loan guarantees include municipal infrastructure projects, micro, small, or medium enterprises, agribusinesses, clean air technology projects, and wastewater services. DCA guarantees are a type of Global Development Alliance public-private partnership with USAID providing a guarantee and private financial institutions providing loan capital.

A Symbiotic Partnership

Engaging local financial institutions with DCA guarantees creates benefits for all parties:

- ***Credit Access.*** Borrowers gain increased access to capital to expand their economic opportunities;
- ***Lenders Expand.*** Lenders gain a safer entry into a new and potentially profitable market;
- ***Demonstration Effect.*** Successful DCA activities produce a powerful demonstration effect, with the lender's visible success encouraging other lenders to enter similar markets previously perceived as too risky; and,
- ***Sustainability.*** USAID gains critical progress in creating a sustainable financing source for development projects.

Overall Cost-effectiveness. DCA is an excellent way to leverage private capital allowing USAID to get the most 'bang for its buck.' Through DCA, USAID can invest a relatively small amount for a loan guarantee to encourage private banks to lend their own capital for development activities. The savings realized from this approach can then be used by USAID for complementary technical assistance to strengthen the borrower(s) and private financial institutions involved. A fractional loan loss reserve called a subsidy cost which is typically 5 to 10 percent of the guarantee facility amount is set aside by USAID operating units to cover potential guarantee claims.

The How-To of Developing a DCA Project

Below are the basic steps to develop a DCA project. Chemonics has experience in all facets of developing and implementing DCA guarantees for multiple projects ranging from water utilities to microfinance to alternative development agriculture. We understand the requirements and phasing for each of these steps and can perform key DCA functions, including:

- identifying appropriate lenders and borrowers;
- developing a concept paper and deal structure;
- developing an action package;
- developing a financial and development monitoring plan; and,
- contributing data for the financial viability analysis and risk assessment.

1. Identify potential DCA application for enhancing credit. DCA must always be used to support existing USAID strategic objectives. DCA guarantees can enhance credit for activities that address market imperfections preventing or discouraging commercial lending, and can be used to encourage banks to lend to other financial institutions, or directly to new or non-traditional sectors. Chemonics can support USAID missions and bureaus in identifying and developing potential DCA projects and partners.

2. Coordinate with USAID. The USAID mission sends a concept paper summarizing the proposed activity to its regional representative in Washington, DC at USAID's EGAT/Office of Development Credit (ODC). The ODC supports missions in designing and developing DCA projects and provides credit expertise to the mission through its regional Relationship Managers and Risk Assessment team.

3. Develop an Action Memorandum. The mission develops, often with contractor assistance, a DCA action memorandum and supporting documents. This package includes a project information sheet, activity description, information about the lender(s) and borrower(s), transaction details, and an economic justification verifying that the DCA activity addresses in-country market imperfections and does not supersede private sources of finance. The mission or its implementing partner is also responsible for contributing financial and other data on the lender(s) and borrower(s) for the ODC financial viability analysis and risk assessment. Chemonics has assisted missions develop DCA activities in Africa, Eastern Europe, Latin America, and the Middle East through technical assistance projects and IQC task orders.

4. Ensure adequate funds are allocated. The DCA subsidy cost is typically allocated as part of a mission's or region's standard budgeting process in advance or at the commencement of DCA project preparation. The amount needed to cover the subsidy cost is significantly less than the amount of actual lending DCA is catalyzing, typically ranging from 5 to 10 percent of the guarantee facility amount.

5. Develop procedures for DCA implementation, monitoring, and evaluation. The mission prepares, often with contractor assistance, a developmental and financial monitoring plan to track loan portfolio performance along with relevant indicators linked to its strategic objectives. The mission also develops an implementation plan for data collection and reporting. Chemonics has successfully implemented monitoring and evaluation systems in Uganda, Egypt, Mexico and Peru complying with ODC standards.

6. Submit the Action Memorandum. The mission sends the action memorandum and the monitoring plan to the Credit Review Board, which reports to USAID's Chief Financial Officer (CFO). The Credit Review Board determines whether the risk is adequately mitigated through the DCA deal structure, the final subsidy cost charged to the mission is appropriate, and confirms the availability of transfer authority within the statutory ceiling or other DCA budget authority.

The entire application process can take less than 90 days. For more information on DCA criteria and policies see ADS 249 on the USAID Web site.

Putting DCA into Action: Our Application of DCA to Magnify Development Impact

DCA activities structured and implemented by Chemonics for USAID are:

- Enhancing credit for companies providing services to water utilities in Egypt, helping boost private sector participation in Egypt's water sector.
- Encouraging wholesale lending to microfinance institutions (MFIs) and retail lending to micro, small and medium enterprises in Mexico, Uganda, and Mali, promoting expansion of the microenterprise sector, and contributing to the expansion of sustainable rural economic growth.
- Stimulating medium-term lending to small and medium-sized enterprises in Jordan and Kosovo to complement competitiveness initiatives.
- Facilitating access to credit for Rwandan agribusinesses to boost productivity and increase exports.

Chemonics DCA Initiative. Chemonics has made a corporate commitment to help USAID explore private funding sources to enhance the impact and sustainability of development efforts. To realize this pledge, our dedicated DCA Team coordinates and supports the integration of innovative DCA applications into existing Chemonics-managed technical assistance projects. We also serve USAID missions directly, assisting with DCA project design, development, implementation, and evaluation.

For more information about how Chemonics can assist you in developing DCA activities to complement your mission or program objectives, please contact: Caroline Averch, Director for DCA Activities, **caverch@chemonics.com**, ++1-202-775-6922.

TAB 7: DCA IN JORDAN
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Chemonics International Inc., 1133 20th St. NW, Washington, DC 20036
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Presentation: Jordan's First DCA

SME LOAN PORTFOLIO GUARANTEE: JORDAN'S FIRST DCA

Khush Choksy
Jordan AMIR Program
Chemonics International Inc.

June 2005

Outline

- Background and timeline
- SME loan portfolio guarantee
- Future DCAs in Jordan
- Lessons learned

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Background and Timeline

November 2004	:	USAID/EO and AMIR try to engage the USAID/Water Office
December 2004	:	USAID/Water Office decides to fund two small water projects
January 2005	:	USAID requests AMIR and other projects for DCA concept papers
February 2005	:	USAID decides to go with AMIR SME proposal

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Background and Timeline

February 2005	:	USAID/DCA Office holds regional DCA training program for USAID staff in Jordan
April 2005	:	SME loan portfolio finalized
April 2005	:	Chemonics/AMIR presentation to USAID on proposed SME loan portfolio well received
June 2005	:	Credit Review Board approval

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SME Loan Portfolio Guarantee

Development Goals

- Lack of lending to SMEs
- Collateral, not cash-flow based lending
- No long-term lending
- Need for finance by SMEs that are part of Jordan's National Linkages Program to expand/upgrade
- Demonstration effect to market that SME lending is profitable

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SME Loan Portfolio Guarantee

- Complementary to other USAID and donor SME efforts
- SME's can establish credit histories
- Will encourage bank analysis of SMEs
- Will not distort existing financial markets as loans are at market rates

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SME Loan Portfolio Guarantee

Guarantee Purpose

Intended to strengthen Bank of Jordan's ability to finance loans to SMEs

Maximum Authorized Portfolio Amount

$ 5 Million

USAID Guarantee Percentage

50% net losses of principal on qualifying loans

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SME Loan Portfolio Guarantee

Coverage

Eight years

Currency of Loans

U.S. Dollars, Euros and Jordanian Dinars

USAID Fees

Origination Fee: 0.75%
Utilization Fee : 0.65%

Maximum Cumulative Principal Amount

$ 1 Million

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Future DCAs in Jordan

- SME with Standard Chartered Bank
- USAID/Water Office
  (Egypt Secondary Cities project, example)
- Bond issues
- Tourism Sector

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Lessons Learned

- Need to work with Missions to increase awareness of DCA
- Provide ideas to Missions on how DCA can be incorporated into Country strategy and projects
- Work with Missions on preparing Concept Papers; offer to complete Action Package and other information
- Engage Mission closely throughout the process

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Lessons Learned

- Interact with USAID technical office and other key USAID Mission personnel
- Leverage upon Chemonics HO resources
- Engage DCA Office personnel when they visit the field
- Engage DCA Office through HO throughout the Credit review process

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Concept Questionnaire

USAID
FROM THE AMERICAN PEOPLE

OFFICE OF DEVELOPMENT CREDIT

CONCEPT QUESTIONNAIRE

For DCA Loan Portfolio Guarantee and Loan, Bond, or Portable Guarantee

1. Project Management Information

a. Mission/Bureau: USAID/Jordan

b. Project manager name: **Title:**

Email: **Phone:** **Fax:**

c. Funding (amount available for DCA credit subsidy):

d. Date obligation expected:

e. Name of the RLA:

2. Project Description and Development Analysis Information

a. Brief project description: Establish a multi-bank loan portfolio guarantee (LPG) to encourage commercial lending for SMEs to finance the 70% of capacity building (capital investment component) not covered by the Jordan Upgrading and Modernization Program (JUMP). Meeting the critical financing needs of JUMP SMEs will allow them to complete the upgrading program required to become accredited suppliers of large firms, in order to grow and increase employment and competitiveness. The DCA LPG facility would provide guarantee coverage to a select group of commercial banks to extend loans with longer terms and reduced collateral requirements, as well as to offer more appropriate financial products/instruments to this group of SMEs which is currently underserved by the Jordanian financial sector. More detailed information is provided in the attached National Linkage Program DCA Description.

b. Linked SO(s): This DCA guarantee will support SO5: Increased economic opportunity for Jordanians.

c. Economic justification - Please address the following in a few sentences:

- **Market imperfections** - specific barriers discouraging entry of new credit or suppliers Local banks are typically reluctant to finance SMEs, due to an inaccurate perception of the risk involved. In turn, they customarily impose requirements such as onerous collateral, multiple guarantors, or a long-established credit history that most SMEs cannot satisfy. Many Jordanian banks either do not have or do not offer SMEs financial products and services, such as term loans for fixed asset purchases, technology upgrades, or plant and equipment upgrades that require a longer payoff period, nor do they offer working capital loans against a forward contract for purchase from a larger business. Furthermore, the concept of backward linkages, as well as JUMP and the National Linkages Program themselves, are new to Jordan. As a result, local banks may not fully appreciate the opportunities that they promise for their prospective SME clients.

- **Additionality** – This DCA LPG facility will help create and/or increase access to credit for high-growth potential SMEs without replacing or competing with existing private source(s) of financing. The DCA activity creates additionality by augmenting the impact of the JUMP program and technical assistance provided by USAID through the AMIR Program to accomplish SO5.

3. Financial Institution (FI) Information, if available

A select group of strong, profitable, and (if possible) rated private commercial banks will be approached with the concept, and USAID and the AMIR Program will evaluate their strategic long-term interest in the SME market and in participating as a USAID partner lender under this guarantee facility. A multi-bank facility (with the guarantee ceiling being divided among up to three banks) is proposed to allow some specialization or niche creation by the banks in a particular sector if that aligns with their business plan, as well as more broadly to promote healthy competition in the market.

a. FI Name & Address:		
b. Contact person's name:	Title:	
Email: Phone:	Fax:	
c. Is the FI majority owned by the private sector?	**Yes**	No
d. Is the FI a present or past DCA partner?	Yes	**No**
e. Was the FI profitable:		
Last fiscal year?	**Yes**	No
Year before?	**Yes**	No
Two years ago?	**Yes**	No
f. Was the FI audited:		
Last fiscal year?	**Yes**	No
Year before?	**Yes**	No
Two years ago?	**Yes**	No
g. Has the FI been rated?	**Yes**	No

h. If yes, please give the name of the rating agency: [To be determined]

4. Basic Anticipated Terms

a. Type of guarantee, check one: LPG **(X)** LG ( ) BG ( ) PG ( )
b. Total facility amount (i.e., total credit to be disbursed): **$10 Million (may be divided among up to 3 banks)**
c. Term of guarantee: **7 years**
d. USAID guarantee percentage: **50 percent**
e. Guarantee ceiling (maximum USAID liability): ***$5 million***
f. Final date for disbursing qualified loans under the guarantee: **30 May 2010**
g. Guarantee expiration date: **30 May 2017**
h. Currency of loans, is there a mismatch? **Jordanian Dinars (JD). No currency mismatch will exist since the SME borrowers are sourcing inputs locally in JD and will be supplying larger local businesses that will make payment in JD, rather than exporting directly.**
i. Estimated pricing – interest rate, fees: **It is anticipated that interest rates charged to SME borrowers under the guarantee facilities will be at reasonable market rates for the loan tenor and terms, but that the guarantee may effectively reduce collateral and other requirements, thereby creating credit access. The interest rate charged to the end borrowers may include some passed-on portion of the origination and utilization fees charged to the partner lender for DCA coverage. These fees are anticipated to be set between 0.5% and 1.5%.**
j. Basic anticipated credit criteria for asset class (e.g. collateral requirements, credit history): **Part of the intent of this DCA guarantee facility is to encourage banks to more thoroughly analyze the current and projected cash-flows of SMEs rather than depending solely on collateral per standard practices. However, it is expected that the banks would still take reasonable collateral. The guarantee would support lending against forward contracts and purchase orders. Borrowers should have a minimum of 3 years business history, auditable financial statements, and must be participating in the National Linkages Program.**

If a Loan Portfolio Guarantee, please provide this additional information:

a. Estimated loan size (minimum, maximum, average): **$71k, $212k, $106k**
b. Estimated average maturity (months: minimum, maximum, average): **12, 60, 48. Six-month grace period suggested for the term loans.**
c. Estimated number of borrowers: **94**

5. Borrower Information:
Complete this section for loan portfolio guarantee (LPG) or bond guarantee (BG) with multiple end-borrowers. For other guarantees, skip and go to the next section.

a. What is the borrowers' industry sector? **Various industrial suppliers**
b. How are they meeting their current financing needs? **Retained earnings, short-term overdraft facilities, family borrowing**

c. Average loan size: **$106,000**

d. Average loan term: **4 years**

e. Purpose of the loan: Working capital (✓) Asset purchase (✓) Other (✓)

f. Has this group borrowed from any FI in the past? **Yes** No

Some potential borrowers have established banking relationships for their operational transactions and for short-term overdraft facilities.

Yes No

g. Has a study been done on the borrower group or industry sector?

h. Have the borrowers received or are receiving any technical assistance? **Yes** No

i. If the answer is yes to h, please give a very brief description of the assistance and the length of the assistance: **All potential borrowers will be clients of the National Linkages Program, which is a division of JUMP. As such, they will be receiving a full program of company upgrading, including a needs assessment, capacity building (capital investment component), and capability building. For more information, see the attached National Linkage Program DCA Description or visit www.jump.jo.**

6. Borrower Information:

Complete this section for loan guarantee (LG), bond guarantee (BG) for a single borrower, or portable guarantee (PG). For loan portfolio guarantee (LPG), skip this section.

a. Borrower name and address:

b. Contact person's name: Title:

Email: Phone: Fax:

c. Primary business:

d. Date established:

e. Legal form:

f. Last full year Revenue: Profit:

g. Purpose of the loan: Working capital ( ) Capital purchase ( ) Other ( )

h. Has the borrower had experience in the "purpose" area? Yes No

i. Does the borrower have present/past borrowing experience? Yes No

j. Is the borrower a present/past DCA partner? Yes No

Date Submitted: **Date Reviewed:**

National Linkage Program DCA Description

Background

The critical economic challenges facing Jordan are modest economic growth rates, insufficient international competitiveness, persistent poverty, high unemployment, sagging *per capita* incomes and economic structural imbalances. All of these factors threaten Jordan's ability to generate new economic opportunities for its citizens and limit private sector trade and investment. In short, Jordan must grow its economy at sustained "real" rates above 5% annually in order to address the pressing poverty and unemployment problems. Morever, the Jordan Vision 2020 exercise estimates that Jordan's economy must grow at a rate of 8.4% annually in order to achieve its national goal of doubling of gross domestic product *per capita* by 2020. USAID/Jordan's Strategic Objective 5 – Increased economic opportunity for Jordanians – addresses these issues.

One of the most critical ways identified to accelerate Jordan's economic growth, while creating employment and increasing its value added, is the introduction of a program to facilitate backward linkages. There is currently no backward linkage program as such operating in Jordan.

Backward linkages are inter-firm relationships in which large firms purchase intermediate goods and services as its production inputs on a regular basis from one or more local small- or medium-sized enterprises (SME) in the production chain. Backward linkages have the potential to achieve the following.

- Generate additional economic activity
- Strengthen local SMEs through technology transfer and skills upgrading
- Give local SMEs a foothold in international markets
- Attract foreign direct investment (FDI) by offering an adequate local supply base

Backward linkage programs facilitate and enable such inter-firm relationships. A backward linkage program is defined as one that is

- demand-driven by large purchasing companies,
- selective in participation by and upgrading of SME supplier companies, and
- oriented towards SMEs becoming accredited suppliers to large companies.

The steps of the backward linkage program process can be summarized as follows.

- Identification of demand company
- Identification of demand requirements
- Identification of potential supply companies
- Audit of supply company
- Preparation of supply company deficiency report
- Upgrading of supply company
- Achievement of accredited supplier status

The USAID-funded AMIR Program is currently sponsoring the establishment of the National Linkages Program as a component of the Jordan Upgrading and Modernization Program (JUMP). The objective of the National Linkages Program is to facilitate "backward linkages" in Jordan, based largely on the successful model of a program by the same name in Ireland.

Proposed Project

Experience has shown that supplier companies, implementing a program of upgrading for the purpose of making linkages with larger firms, have a requirement for funding to achieve the following.

- Purchase technology
- Purchase new equipment
- Pay for training
- Pay for wages of staff while on training
- Extend premises
- Increase working capital

For this reason, the ability to provide some form of preferential access to finance is an important feature of any successful backward linkage program. Many other countries operating linkage programs provide financial support to assist supplier companies to make the expenditure necessary to achieve the targets set in their development plans. For example, Enterprise Ireland, the Irish state agency charged with the task of promoting indigenous industry, provides grants (i.e., non-interest bearing and non-refundable finance) to help companies acquire the fixed assets deemed necessary. In addition, grants are given to offset the costs of training both management and operatives.

An examination of the situation in Jordan indicates that such finance is not readily available. Local commercial banks often impose relatively onerous requirements. These requirements, coupled with the norm of providing project funding through overdraft facilities, rather than long-term debt, make it very difficult for Jordanian companies to fund expansions.

This is one of the reasons that the AMIR Program has decided to establish NLP in collaboration with JUMP. JUMP is currently being launched by the Government of Jordan as an independent entity with financial support from the Socio-Economic Transformation Plan and the European Commission. Its objective is to provide technical assistance, training, and partial grants to strengthen the capability and capacity of assisted SMEs, in order to enhance their competitiveness in domestic and export markets.

Capability will be built through the use of external consultancy and/or training support across the major strategic business functions. Capacity will be built through support for capital expenditure for expansion and/or to replace existing technology with improved technology. The net result will be to enhance the competitiveness of the SME sector.

Financial assistance will be offered in the form of cash grants, according to the following schedule.

Service	Share of Grant	Maximum Grant
Diagnostic study	90%	Up to JD7,000
Capability building (per service)	Up to 80%	Up to JD25,000
Capacity building	30%	Up to JD70,000

"Capability building" includes refers to administrative and managerial improvement, while "capacity building" refers to capital investment.

The ultimate success of the National Linakges Program will lie in the ability of the supply companies to complete their upgrading programs, especially in the area of new capital investment, in order to achieve accredited supplier status with large firms. It is expected that the major obstacle supply companies will face is access to finance to purchase new machinery, increase stock levels, acquire new technology, given that JUMP will only finance up to 30% of the required cost.

Jordanian SMEs typically face obstacles accessing commercial debt finance, which is due primarily to the following factors.

- Existing financing schemes impose requirements, such as collateral and guarantors, which SME owner(s) cannot satisfy
- Sources of finance are limited
- Many SMEs have little or no credit history
- SMEs have little knowledge of available financing schemes

Therefore, it is proposed to establish a loan guarantee facility to finance NLP capacity building on a commercially-sustainable basis, in order to overcome the aforemented constraints. This can be done within the structure of JUMP by focusing on the 70% required for capacity building that is not covered by grants.

Loans made for the purposes of NLP upgrading enjoy a number of advantages *per se.* Potential borrowers would have a strong business case, namely improving their business in specific ways to make specific, predictable sales to specific clients. They might even present pledges from large firms to purchase their products should the upgrading program be completed successfully, further reducing risk.

Local banks may nevertheless be skeptical, since such an arrangement is new to Jordan. A DCA guarantee might help to overcome such initial skepticism and create a sustainable, market-driven practice with tremendous benefits for the local economy.

Bank Letter of Intent

May 2, 2005

Mr. Khush Choksy
Component Manager
Financial Markets Development
Achievement of Market-Friendly Initiatives and Results (AMIR) Program
Salem Center, Sequleyah Street, Al-Rabiyeh
P.O. Box 940503 Amman 11194 Jordan
kchoksy@amir-jordan.org

Dear Mr. Choksy:

Pursuant to our ongoing discussions with USAID/Jordan and the AMIR Program, Bank of Jordan would like to formally confirm its interest in participating in a USAID Development Credit Authority (DCA) Loan Portfolio Guarantee Facility to offer partial risk coverage for lending to small and medium-sized enterprises (SMEs).

Bank of Jordan has a long-term strategic interest in expanding our lending to SMEs, as demonstrated by the attendance of our Credit Officers at the FOR-Jordan Bank Training Program, our ongoing engagement of a European Union-funded SME Finance Advisor, and our preliminary SME business strategy prepared with this Advisor's assistance. Additionally, Bank of Jordan is eager to begin lending to SMEs in West Bank under a new DCA Loan Portfolio Guarantee with USAID/West Bank and Gaza.

We believe a USAID DCA Loan Portfolio Guarantee will assist us in increasing our lending to SMEs in Jordan and complement our overall efforts to move into this market in a systematic way. We intend to use the guarantee primarily to extend longer term loans of up to five years to SMEs requiring investment capital to upgrade their businesses and increase their competitiveness. Additionally, we may offer some SMEs shorter term working capital loans, receivables-based financing, and trade finance products supported by the guarantee.

We look forward to collaborating with USAID/Jordan and AMIR to develop the guarantee facility, and to engaging new SME bank clients through this program.

Sincerely,

Mohammed Anwar Hamdan
Assistant General Manager

الإدارة العامة
ص.ب ٢١٤٠
عمان ١١١٨١ - الأردن
تلفون ٥٦٩٦٢٧٧ (٦ ٩٦٢ +)
فاكس ٥٦٩٦٢٩١ (٦ ٩٦٢ +)
تلكس ٢٢٠٣٣ سويفت BJORJOAX

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Tel: (+962 6) 5696277
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01040003

Bank of Jordan بنك الأردن

SAMPLE USAID GUARANTEE TERM SHEET – SME LENDING[1]

GUARANTEE PURPOSE: The USAID Guarantee is intended to stimulate term and working capital financing for small and medium-sized enterprises (SMEs) in Jordan. Such financing will include up to the Jordanian Dinar equivalent of Ten Million U.S. Dollars ($10,000,000) in loans disbursed by Bank of Jordan (herein referred to as the "Bank".) The USAID Guarantee is backed by the full faith and credit of the United States Government.

PARTIES TO GUARANTEE AGREEMENT: The Guarantee Agreement shall be entered into between the Bank and USAID.

1. Maximum Authorized Amount. The aggregate principal amount of loans that may be lent by the Bank and partially guaranteed by USAID shall not exceed the Jordanian Dinar equivalent of Ten Million U.S. Dollars ($10,000,000).

2. USAID Guarantee Percentage. Fifty Percent (50%) of the Bank's net loss of principal.

3. Guarantee Ceiling (Maximum USAID liability). The Jordanian Dinar equivalent of Five Million U.S. Dollars ($5,000,000).

4. Term of Loan Portfolio Guarantee. 8 years.

5. Claim Requirements. No claim under the USAID Guarantee shall be honored unless the Bank certifies to USAID and USAID thereafter reasonably determines that all of the following requirements are met:

(a) The entire amount or a portion of the loan has become due, and the Borrower has failed to pay such principal amount;
(b) The Borrower has failed to meet the Bank's written demand for repayment of the principal amount due on the loan within thirty (30) days of receipt of the demand;
(c) The Bank has pursued reasonable collection efforts in accordance with applicable law and standard commercial practice in Jordan; and
(d) After such collection activities, the Guaranteed Party has either (i) certified to USAID that it has written off the entire outstanding balance (including principal and interest) of the Qualifying Loan as a bad debt expense, or (ii) certified to USAID that it (A) is unable, because of a legal impediment or significant impracticality, to take the action described in (i) above, and (B) has established a specific provision of funds (which is evidenced on its balance sheet or income statement) for possible loan losses associated with the default by the Defaulting Borrower, and the amount of such provision equals or exceeds 20% of the amount of defaulted principal.

6. **Post-Claim Reimbursement Requirements.** After USAID has paid a claim with respect to the guaranteed loans, the Bank shall continue to pursue reasonable collection activities against the Borrower and shall reimburse USAID 50% of such post-claim recoveries, after deducting its reasonable expenses incurred in collection efforts and accrued and unpaid interest on the Loans.

7. **USAID Guarantee Fees.**

(a) **Origination Fee.** One and one-quarter percent (1.25%) of the Guarantee Ceiling (which is $62,500). This fee is payable by the Bank under the terms of a Guarantee Commitment Agreement between the Bank and USAID.
(b) **Utilization Fee.** One percent (1%) of the outstanding principal amount that is guaranteed by USAID. This fee shall be payable semi-annually on guaranteed portion of the total amount outstanding under coverage on the portfolio.

8. Qualifying Borrowers. Small- and medium-sized enterprises (SMEs) operating in Jordan. SMEs are defined by USAID/Jordan as enterprises with 5 to 250 employees. It is anticipated maximum loan size will be 354,000 Jordanian Dinars (USD $500,000), and maximum loan term will be 60 months. For loans over this size, the Bank may petition USAID for a justified exception. Currency of loans will be matched to the currency of revenue generated by the borrower, including Jordanian Dinars, US Dollars, and Euros.

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[1] This term sheet is for discussion purposes only and does not represent a binding commitment from USAID.

ATTACHMENT 1 (GUARANTEE TERM SHEET)

GUARANTEE PURPOSE. The USAID guarantee is intended to strengthen the Guaranteed Party's ability to finance loans to small- and medium-sized enterprises in Jordan operating in any sector of the economy, thereby stimulating economic growth.

THE GUARANTEE. To induce the Guaranteed Party to make "Qualifying Loans" to "Qualifying Borrowers," each as defined below, the Parties agree to the following terms:

1. **Maximum Authorized Portfolio Amount:** The aggregate principal amount of all Qualifying Loans covered under the Agreement at any one time shall equal the sum of:

(a) the aggregate principal amount of all Qualifying Loans made in U.S. Dollars,

(b) the U.S. Dollar equivalent of the aggregate principal amount of all Qualifying Loans made in Euros, and

(c) the U.S. Dollar equivalent of the aggregate principal amount of all Qualifying Loans made in Jordanian Dinars,

which sum shall not exceed Five Million U.S. Dollars (US $5,000,000).

2. **Maximum Cumulative Disbursements:** The maximum cumulative amount of all loan disbursements made under Qualifying Loans shall equal the sum of:

(a) the aggregate principal amount of all Qualifying Loans made in U.S. Dollars,

(b) the U.S. Dollar equivalent of the aggregate principal amount of all Qualifying Loans made in Euros, and

(c) the U.S. Dollar equivalent of the aggregate principal amount of all Qualifying Loans made in Jordanian Dinars,

which sum shall not exceed Five Million U.S. Dollars (US $5,000,000). No loan disbursement shall be eligible for coverage under the Agreement unless the amount of such disbursement (converted into U.S. Dollars in the case of Qualifying Loans made in Euros and Jordanian Dinars), together with all previous disbursements made under Qualifying Loans, does not exceed Five Million U.S. Dollars (US $5,000,000).

3. **USAID Guarantee Percentage:** Fifty percent (50%) of the Guaranteed Party's net losses of principal with respect to Qualifying Loans. (See Section 4.01 of the Standard Terms and Conditions for claim requirements).

4. **<u>Guarantee Ceiling (Maximum USAID Liability)</u>:** Two and One Half Million U.S. Dollars (US $2,500,000).

5. **<u>Final Date for Placing Qualifying Loans under Coverage</u>:** 365 days prior to the Coverage Expiration Date.

6. **<u>Coverage Expiration Date</u>:** Eight (8) years from the date of the Agreement.

7. **<u>Final Date for Submitting Claims</u>:** 180 days after the Coverage Expiration Date except as set forth in Article IV of the Standard Terms and Conditions attached hereto, provided that no claims may be submitted in connection with any default on a loan that occurs after the Coverage Expiration Date.

8. **<u>Currency of Qualifying Loans Placed Under Guarantee Coverage</u>:** U.S. Dollars, Euros or Jordanian Dinars. The Currency of each Qualifying Loan must match the currency of the revenue stream to be generated by the Qualifying Borrower from the proceeds of each Qualifying Loan.

9. **<u>Final Qualifying Loan Maturity Date</u>**: For each Qualifying Loan, the maturity date for the entire principal amount of such Qualifying Loan shall be no later than 60 months from the date of the initial disbursement of the Qualifying Loan, unless otherwise agreed by USAID.

10. **<u>Currency of Guarantee Payment</u>:**

    (a) U.S. Dollars in the case of all Qualifying Loans made in U.S. Dollars,

    (b) Euros in the case of all Qualifying Loans made in Euros, or

    (c) Jordanian Dinars in the case of all Qualifying Loans made in Jordanian Dinars.

11. **<u>USAID Guarantee Fees</u>:**

    (a) **<u>Origination Fee</u>:** Three-quarters of one percent (0.75%) of the Guarantee Ceiling, Eighteen Thousand Seven Hundred Fifty U.S. Dollars (US $18,750).

    (b) **<u>Utilization Fee</u>:** Sixty-five hundredths of one percent (0.65%) per annum of the average outstanding principal amount that is guaranteed by USAID. This amount is to be calculated by taking the USAID Guarantee Percentage (50%) of the average of the total ending balances of all Qualifying Loans at the end of the two most recent Guarantee Periods and then multiplying such amount by sixty-five hundredths of one percent (0.65%) per annum. The fee is payable semi-annually, as billed.

12. **Currency of Fee Payment:** The Origination Fee and the Utilization Fee shall be paid in U.S. Dollars.

13. **Guarantee Periods:** The first Guarantee Period will commence upon the date of the Agreement and end on March 31, 2006. Subsequent Guarantee Periods will consist of each six month period, beginning with the six month period from 04/01/2006 to 09/30/2007 and the final Guarantee Period will commence 04/01/2013 and end on the Coverage Expiration Date.

CRITERIA FOR QUALIFYING LOANS. In addition to the criteria set forth in the Standard Terms and Conditions, Attachment 2, a "Qualifying Loan" is one made to a "Qualifying Borrower," each as defined in items 14 and 15 below:

14. **Qualifying Borrowers:** Small- and medium-sized enterprises, defined as having 5 to 250 employees, established under Jordanian law that are private enterprises in any sector of the economy, including but not limited to those that are exporting or provide inputs to exporters.

15. **Maximum Cumulative Principal Amount of Qualifying Loans Made To Any One Qualifying Borrower:**

(a) One Million U.S. Dollars (U.S. $1,000,000) in the case of all Qualifying Loans made in U.S. Dollars,

(b) The Euro equivalent of One Million U.S. Dollars (U.S. $1,000,000) in the case of all Qualifying Loans made in Euros, or

(c) The Jordanian Dinar equivalent of One Million U.S. Dollars (U.S. $1,000,000) in the case of all Qualifying Loans made in Jordanian Dinars.

A Qualifying Borrower includes any Affiliate of that borrower, including parent or subsidiary companies having the same or substantially similar ownership as such borrower. Any question regarding who is a Qualifying Borrower may be resolved in consultation with USAID, and USAID may waive in writing this restriction on loans to Affiliates.

16. **True Risk Sharing by Guaranteed Party:** In order to ensure that there will be true risk sharing between USAID and the Guaranteed Party, no Qualifying Loan shall be eligible for coverage under the Agreement if more than fifty percent (50%) of total payments of principal on such Loan is guaranteed by a government or international donor organization, including USAID.

17. **Payment Instructions:**

Unless otherwise instructed in writing by USAID:

U.S. Dollar payments to USAID shall be made directly to the U.S. Department of Treasury's account with the Federal Reserve Bank of New York via electronic funds transfer for further credit to USAID.

The following information shall be included in the wire transfer instructions:

Federal Reserve Bank of New York ABA# 021030004
33 Liberty Street, New York, NY 10045
U.S. Department of Treasury - Type Code 15 (for banks outside the United States)
USAID Agency Location Code (ALC) 72000001
Reference: USAID a/c 72X4266, bank name (to be inserted),
Guarantee No: [**Insert DCA Guarantee Number**].
Type of Payment: [Origination Fee]/[Utilization Fee]/[Post-Claim Recoveries]

18. Address for Notices:

USAID:

U.S. Agency for International Development
Jordan Mission
c/o American Embassy
P.O. Box 354
Amman 11118, Jordan
Tel: +962-6-590-6000
Fax: +962-6-592-0143
Attn: Mission Director

A copy of each such notice to USAID shall also be sent by mail or facsimile to:

U.S. Agency for International Development
Office of Development Credit
EGAT/DC, Rm. 2.10, RRB
1300 Pennsylvania Ave., N.W.
Washington, DC 20523
Tel: +202-712-1380
Fax: +202-216-3593
Attn: Credit Portfolio Manager

GUARANTEED PARTY:

Bank of Jordan
Jordan Head Office
P.O. Box 2140
Amman 11181, Jordan

Tel: +962-6-569-6122
[Fax:]
[Attn:]

USAID FINANCIAL AGENT: Riggs Bank N.A.
808 17th Street, N.W.
P.O. Box 96206
Washington, DC 20090-6206
Tel: +202-835-6746
Fax: +202-835-4303
Attn: Mr. Earl Ziegler, Jr.
Specialized Client Services

19. **Definitions**: When used in the Standard Terms and Conditions (Attachment 2), each underlined term defined in paragraphs 1 through 18 above shall have the same meaning as provided to such term in this Guarantee Term Sheet.

Financial Institution Risk Assessment Information

Required Lending Institution(s) Information for USAID Development Credit Authority Loan Portfolio Guarantee Facility Assessment

1. CVs of senior management team (principal officers and directors)
2. Organization chart
3. List of registered owners by name and percentage of ownership (if publicly listed, note % held by public)
4. Present, past use of DCA guarantee, if any (N/A)
5. Audited financial statements (with footnotes) and annual reports for past three years, plus most recent interim financial report. Please see #11.
6. Three to five year business plan, if available
7. Rating by a recognized rating agency, if available
8. CAMEL rating/analysis by the central bank, if available
9. Additional information as requested by the Risk Management Team per specifics of the project
10. Detailed description of the lender's asset quality classification policies.
11. In addition, please fill in the following tables if applicable, if this information is not available in the audited financial statements of the bank:

Classification*	**2004**	**2003**	**2002**
Gross loans			
a. Performing			
b. Special Mention			
Total performing loans (a + b)			
c. Sub-standard			
d. Doubtful			
e. Loss			
Total non-performing loans (c + d + e)			
Accrued interest as % of total non-performing loans			

*If the lender uses a different set of classification standards than those above, please provide a breakout of performing and non-performing loans per the lender's classification standards.

Information reported to central bank	**2004**	**2003**	**2002**
Risk-weighted assets			
Capital adequacy ratio (CAR)			
Liquidity ratio			

In reference to your emails and to the required lending institution information for USAID DCA LPG facility assessment,

We did supply you with the following:

(1) CVs of senior management team.
(2) Organization chart.
(3) List of registered owners by name and percentage of ownership.
(4) Audited financial statements (with footnotes) and annual reports for past three years.
(5) Rating by a recognized rating agency.

In addition, the information needed about the classification and information reported to central bank is mentioned below:

Classification	2004	2003	2002
Gross Loans	430 587 000	384 946 000	368 572 000
a. Performing	399 657 000	342 247 000	331 433 000
b. Special Mention			
Total Performing Loan (a+b)			
c. Sub-standard	3 373 000	3 506 000	4 602 000
d. Doubtful	21 938 000	35 360 000	29 435 000
e. Loss	5 619 000	3 833 000	3 102 000
Total Non-performing Loan (c+d+e)	30 930 000	42 699 000	37 139 000
Accrued Interest as % of total non-performing loans	%16.6	%14.9	%20.9

Information reported to Central Bank	2004	2003	2002
Risk-weighted assets	525 000 000	442 000 000	411 000 000
Capital Adequacy Ratio (CAR)	%15.70	%13.89	%13.96
Liquidity Ratio	%59.4	%60.7	%57.7

Loan Portfolio Guarantee Borrower Cohort Report

ASSESSMENT OF THE SME SECTOR IN JORDAN IN PREPARATION FOR A DEVELOPMENT CREDIT AUTHORITY LOAN PORTFOLIO GUARANTEE

Submitted by: the Achieving Market-Friendly Initiatives and Results (AMIR) Program at the request of USAID/Jordan

May 2005

ASSESSMENT OF THE SME SECTOR IN JORDAN IN PREPARATION FOR A DEVELOPMENT CREDIT AUTHORITY LOAN PORTFOLIO GUARANTEE

Introduction

This assessment of SME sectors in Jordan has been completed in anticipation of the establishment of a new DCA Loan Portfolio Guarantee to stimulate lending to SMEs in Jordan, which may be expanded in the near future to multiple banks. It is based on secondary source information, and the final product will be incorporated into the DCA risk assessment of the project conducted by the Office of Development Credit. Any recommendations contained within may be used to better structure the proposed lending program to the needs of SMEs. The assessment analyzes key drivers of financial performance, factors that affect creditworthiness, and factors mitigating or exacerbating risk related to the debt repayment capacity of SMEs in Jordan. Since the guarantee is open to lending to SMEs in all sectors of the economy, three sectors have been selected solely for the purposes of this assessment: construction, tourism, and the industrial sector as characterized by the garment industry, which are representative of the mix of sectors in the DCA partner bank's portfolio.

Background

The proposed DCA Loan Portfolio Guarantee facility will support increased SME access to medium and long term financing for the purchase of equipment and technology, as well as working capital. The DCA facility will provide the bank with a partial guarantee on multiple loans made to SMEs in all sectors and in all geographic areas of Jordan. USAID/Jordan's primary objectives with this activity are to increase SME access to finance, thereby increasing incomes, creating employment and stimulating broader economic growth. The LPG, in combination with technical assistance and capacity building programs for both potential SME borrowers and the partner bank, will catalyze the extension of credit at appropriate terms and competitive pricing for currently underserved SMEs to expand and upgrade their businesses.

Economic Overview

Jordan is a small Arab country with inadequate supplies of water and other natural resources such as oil. Debt, poverty, and unemployment are fundamental problems, but King Abdallah, since assuming the throne in 1999, has undertaken some broad economic reforms in a long-term effort to improve living standards. In the past three years, the Government of Jordan (GOJ) has worked closely with the IMF, practiced careful monetary policy, and made substantial headway with privatization. The government has also liberalized the trade regime sufficiently to secure Jordan's membership in the WTO (2000), a free trade accord with the US (2000), and an association agreement with the EU (2001). These measures have helped to improve productivity and have put Jordan on the foreign investment map. The US-led war in Iraq in 2003 dealt an economic blow to Jordan which was dependent on Iraq for discounted oil (worth \$300 - \$600 million a year). Several Gulf nations provided temporary aid to compensate for the loss of this oil, but Jordanian government has been forced to raise retail petroleum product prices and the sales tax base. Jordan's export market, heavily dependent on exports to Iraq, was also affected by the war but recovered quickly while contributing to the Iraq recovery effort. The main challenges facing Jordan are reducing dependence on foreign grants, reducing the budget deficit, and creating investment incentives to promote job creation and the encouragement of tourism.[1]

Recently, however, several of Jordan's key economic indicators have shown signs of improvement due to structural reforms implemented by the Government of Jordan (GOJ) with the help of the U.S. and other donors since 1999. The Qualified Industrial Zones and U.S.-Jordan Free Trade Agreement, for example, increased annual U.S.-bound exports by almost five-fold since 2001. Despite the negative economic impact of the war in Iraq, Jordan's GNP continues to grow, having achieved a rate of 7.5% in 2004. Jordan was accepted into the World Trade Organization in 2000, and completed a three year IMF structural adjustment program in 2002. These positive developments, combined with continuation of a relatively stable monetary and fiscal environment and a sound microeconomic and regulatory structure means that Jordan is poised for rapid economic growth.

Challenges

The critical economic challenges facing Jordan are modest economic growth rates, insufficient international competitiveness, persistent poverty, high unemployment, sagging *per capita* incomes and economic structural imbalances. All of these factors threaten Jordan's ability to generate new economic opportunities for its citizens and limit private sector trade and investment. In short, Jordan must grow its economy at sustained "real" rates above 5% annually in order to address the pressing poverty and unemployment problems. Moreover, the Jordan Vision 2020 exercise estimates that Jordan's economy must grow at a rate of 8.4% annually in order to achieve its national goal of doubling of gross domestic product *per capita* by 2020.[2] USAID/Jordan's Strategic Objective 10 – Increased economic opportunity for Jordanians – addresses these issues, and the proposed DCA guarantee will contribute to this end.

Jordan has been steadily improving on all macro-economic fronts from 2001 to date. The two indices that fall below the rest, dragging the overall rating down are the rankings for Country Credit Rating and the Technology Index. Historically, the most deeply rooted problems in Jordan are: poor access to finance, particularly the limited venture capital availability; the lack of marketing and branding strategies for firms; the lack of specialized research and training facilities coupled with a poor work ethic; the low capacity for innovation; and the poor port infrastructure.[3]

Exports

In the quantity of exports category, Jordan ranks at 35/104. In the quality of exports however, which is split into the two indices of "nature of competitive advantage" and "value chain presence", Jordan ranks at 42/104, and 46/104 respectively. This is partially due to the fact that firms compete directly with lower-end products that benefit from large economies of scale in East Asia rather than targeting higher value-added products and so are unable to compete effectively. The lack of value-chain presence also means that the value-added reaped

[1] CIA Factbook online
[2] Jordan Vision 2020
[3] Global Competitiveness Report 2003, Jordan Analysis

by Jordan (whether in the final stages of packaging, or the refinement of certain natural resources) is not achieving its true potential.[4]

Table (13): Quality of Exports Rankings

	1998	2000	2002	2004
Nature of Competitive Advantage	40/53 25th	52/59 12th	35/80 56th	42/104 60th
Value Chain Presence	-	31/59 47th	42/80 48th	46/104 56th

Source: Global Competitiveness Report

The GOJ through the JUMP program has identified the selected strategic sectors which have the most competitiveness potential – manufacturing products and providing services for export. Some examples of these in the Jordanian economy include: computer software development; shared services and back office data processing; customer contact call centers; financial services; professional and technical consulting services, and educational and medical services.[5] SMEs are active in almost all of these subsectors, although this analysis focuses on the three mentioned above.

Labor force

Male participation in Jordan's work force is at 64.2% for the entire population (taken from the Human Resource Indicators, 2002), whereas the female rate is only at 12.3%. This figure is especially low; however, recent manufacturing experiences such as the textile industry have been increasing the role of women in the workplace. Meritocracy in Jordan's private companies remains relatively low, as does productivity-linked pay.[6] However, many GOJ, USAID, and other donor technical assistance programs are addressing the need to raise the level of performance and management in Jordanian firms to a world-class standard, both to benefit the local economy, and as a marketing tool to attract foreign investment.

SMEs in Jordan

"Jordan has staked much of its future economic prosperity on the development of a sophisticated network of technology-based SMEs. This comes as no surprise at a time when the country is faced with the twin challenges of anticipating a grim future for its traditional labor-intensive industries....while striving to prevent the 'brain drain' of an increasing number of highly skilled graduates."[7]

Jordan's business sector is dominated by small, family-owned enterprises and medium sized firms that have not been able to transform into larger, more competitive companies. In part, this is due to a conservative commercial banking system that has yet to provide the high level of capital required to generate adequate levels of growth, investment and employment that are needed to offset Jordan's high population growth rate. However, SMEs also have many needs for capacity expansion in the areas of business planning, financial management,

[4] Ibid.
[5] "Business Plan 2003-2007 for the Jordanian Upgrading and Modernisation Program (JUMP)".
[6] Global Competitiveness Report 2003, Jordan Analysis
[7] "Size Matters: Why SME Financing in Jordan is Inadequate", by Gabi Afram, Business Jordan, April 2005.

accounting, marketing, and other key business skills which must be addressed. As a result, with a few exceptions, Jordanian firms lag behind global competitors in the areas of manufacturing, information technology, and financial services. External auditing is not a common practice for the small-sized businesses, and somewhat more common for medium sized firms.

Backward and forward linkages

The nascent National Linkages Program within JUMP is focusing attention on sectors having with the largest capacity to source components and services within the domestic market in Jordan, including: Large Capital Intensive Companies; Heavy Engineering; Electronics and Electrical Appliances; Electrical Engineering; and Construction. These industry sectors require a wide diversity of components and other intermediate inputs, many of which can be supplied by domestic companies a sizeable portion of which in Jordan are SMEs. Experience has shown that SME supplier companies, implementing a program of upgrading for the purpose of making linkages with larger firms, need funding to purchase technology; purchase new equipment; extend premises; and increase working capital. Local commercial banks often impose relatively onerous collateral and other requirements. And prefer to provide project funding through overdraft facilities, rather than long-term debt, so Jordanian firms find it difficult to fund expansions. Most successful backward linkage programs provide some form of preferential access to finance, and the proposed DCA guarantee will help overcome some of those constraints.[8]

Legal & Regulatory Environment / Corporate Governance

According to the World Bank's definition, a country's corporate governance framework "should recognize the rights of stakeholders as established by law and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected."

Much progress was made in Jordan's regulatory environment in the 1990s, since the creation of the Jordan Securities Commission, the Amman Stock Exchange, and the Securities Depository Center. The powers of each of the three bodies were strengthened by the Securities Law of 2002 and subsequent regulation. The Controller of Companies also plays an important role by enforcing many basic corporate governance provisions of the Company Law. A recent World Bank assessment found little evidence of corporate governance scandal, and relatively good disclosure practices. The development of modern board practices is at an earlier stage, although Jordan is advanced in its early adoption of the institution of the audit committee.

The World Bank's assessment report identifies several key next steps that focus on implementation, including: (i) developing a Code of Corporate Governance that focuses on the role, duties, and functions of the board; (ii) focused enforcement of the disclosure provisions, with continued emphasis on a review of content; (iii) revision of the Company Law to bring the policy framework into greater compliance with the OECD Principles, and

[8] "Analysis and Recommendations for the Establishment of a Backward Linkage Program in Jordan", AMIR, May 2000.

(iv) a review of the regulatory jurisdictions of the three main regulatory bodies that oversee corporate governance. Together, these measures will bring Jordan into the mainstream of the worldwide corporate governance reform movement and provide new opportunities for issuers to implement international good practice.

In bankruptcy, employees have priority over creditors. Creditors can veto capital reductions, and have other rights in line with similar income countries in the region. The bankruptcy framework exhibits heavy court involvement, with both weak creditor and debtor rights, and significant delays, however, outcomes in this area are quite consistent with other economies of the region at similar levels of development.

There are no voluntary codes of practice or recommendations on relations with stakeholders. There is an article in the CL stating that the board of directors will exert their efforts to maximize the wealth and the profit of the company. Stakeholders have no specific right to access information or take part in corporate decision making processes. In their annual report, companies must disclose their organizational structure, hiring policy, number of employees, qualification categories, turn-over ratio, and training programs. Bondholder association rights to information are only vaguely defined in the law. Changes in firm creditor rating are announced promptly as material facts.[9]

Financial Assessment

The Country Credit Rating is taken from *Institutional Investor*. According to *Institutional Investor*, the best rating, 100, would represent the countries with the strongest debt service capacity and the lowest possibility of defaulting on their debt. A rating of 0, the worst rating, would represent countries with the weakest debt service capacity and the greatest possibility of default. In other words, these ratings are proportional to expected collection. Jordan's rating has improved from 38.6 in 2003. In terms of the hard data, Jordan ranks as follows:

Table (7): Country Credit Ratings 2003 (used in 2004 GCR):

Country	Credit Rating
Singapore	86.4
Finland	92.3
Israel	58.0
Iceland	76.3
Jordan	41.2
Taiwan	75.2
Ireland	90.9
Egypt	42.1

Source: Institutional Investor

Jordan scored low on financial sector competitiveness for financial market sophistication (48/104), ease of access to loans (46/104), and most significantly the lack of "venture capital availability" (71/104). Venture capital funds for financing start-ups which are considered high

[9] "Report on the Observance of Standards and Codes (ROSC)", Corporate Governance Country Assessment, Jordan, World Bank, June 2004

risk projects are almost non-existent – the existing incubator facilities are not venture capital funds so SMEs have extremely limited access to equity capital.[10] Raising capital through equity or bond markets is not a viable alternative for SMEs in Jordan's still developing capital market environment. (Strauss) Recently the Central Bank of Jordan set out regulation that by 2007 no more than 20% of a bank's portfolio can be in overdraft accounts, thereby the extension of term loans should begin to increase.

Availability of Capital for SMEs

"Many of the country's smallest, youngest, and fastest growing businesses still find it difficult to get sufficient financing".[11] Currently, the majority of lending in Jordan to SMEs is in the form of overdraft accounts. As stated by some private sector banks, their clients prefer overdraft accounts despite higher interest costs because there is no amortization schedule to which they are tied. While most banks have noted that working capital loans are somewhat available to a very limited group of SMEs, overwhelmingly they are hesitant to extend tenors. Most banks noted that 3-year financing to SMEs is extremely restricted, despite having significant liquidity.

Despite its excess liquidity, Jordan's banking sector is dealing with a systemic dearth of long term funds in the system, but it is hoped that a DCA guarantee will stimulate the bank to explore solutions such as the issuance of longer term Certificates of Deposit to correct its asset/liability mismatch to be able to offer longer tenor loans on a sustainable basis. Factors constraining SME access to finance include:

- Information asymmetry – no reliable comprehensive credit reference information system.
- SMEs have opaque financial statements, poor business plans, and limited traditional collateral/security to pledge.
- Very limited medium- and long-term funds in financial system so difficult for banks to lend for SME capital investment.
- Commercial banks are conservative and have focused on large corporate clients and government security investments.
- Limited capacity in the banking sector to properly analyze SME borrowers; evaluate, mitigate, and appropriately price risk.
- The current Jordanian legal environment not conducive to receivables-based financing.

Commercial bank credit is the first external source of capital to which an SME should be able to turn for financing its growing working capital or equipment financing needs. Jordan has the advantage of a relatively healthy banking sector, with numerous banks which are well-established and liquid. These banks are active in lending to the larger corporate sector, in project financing, and in retail lending to individuals, for example via home mortgage lending

[10] Global Competitiveness Report 2003, Jordan Analysis
[11] "Size Matters: Why SME Financing in Jordan is Inadequate", by Gabi Afram, Business Jordan, April 2005.

and other forms of consumer credit which are now growing rapidly. The banks typically invest excess liquidity in Government bills and bonds, and in other investment instruments. There is no lack of loanable funds in the commercial banking sector in Jordan.

However, typical of many developing economies, commercial bank lending to the SME sector is deficient. This lack of lending to SMEs is primarily a reflection of the banks' innate conservatism in asset creation and lack of incentives or inclination to date to develop credit programs aimed at the SME sector. This is in part, but not entirely, a matter of risk appetite on the banks' part. It is also due to a lack of know-how within the banks on the specific techniques used successfully elsewhere in lending to SMEs efficiently and in a way which keeps risks at an acceptable level.[12]

Many sophisticated technology-oriented SMEs that have the highest potential for growth and job creation have extreme difficulty in accessing credit since their core value is intellectual property which is an intangible asset.[13] Receivables financing is also undeveloped in Jordan as a mechanism for expanding access to capital by SMEs. This form of financing requires the acceptance and use by SMEs, their customers and financial institutions, of instruments which represent evidence of debt and sources of cash flow against which a financial institution can provide financing to the SME. The legal environment (enforceability of the instrument against the SMEs customer as well as against the SME) is key to a successful use of receivables financing to expand SME access to capital from this source, turning sales into cash for the SME.[14]

Interest Rates

The private sector is not keen on the interest rate spread banks are making, indicating that when available, loans are expensive for businesses. The banks set the rate based on their break-even point given their demand for loans. The higher the amount of loans supplied, the lower the interest rate is able to fall. Although banks often aggressively advertise to find new clients, given the lack of low-risk loans demanded (and low number of loans given to SMEs with little credit history), banks are unable to lower the rates sufficiently. If a larger volume of credit were disbursed, then the breakeven interest rate could be spread more evenly over those amounts, and therefore the average interest rate would fall.[15]

Table (8): Interest Rate Spread

	1998	2000	2002	2004
Jordan	19/43	44/59	56/102	58/104
Egypt	27/43	21/59	35/102	51/104

Source: Global Competitiveness Report

In terms of ease of access to loans, there are several factors influencing this decision. A large number of SMEs in Jordan, have no financial records. Moreover, many lack the ability to provide a detailed feasibility study when applying for a loan, and with the risk-averse nature of the management of many Jordanian banks, this makes credit access more difficult.

12 AMIR Program Report, "SME Access to Capital in Jordan", Stephen Strauss, August 2004.
13 "Size Matters: Why SME Financing in Jordan is Inadequate", by Gabi Afram, Business Jordan, April 2005.
14 AMIR Program Report, "SME Access to Capital in Jordan", Stephen Strauss, August 2004.
15 Global Competitiveness Report 2003, Jordan Analysis

CONSTRUCTION

Jordanian SMEs are active in the construction sector and are apt to participate in backward linkages arrangements providing supply to larger domestic purchasers. Real value added for the Jordanian construction sector continued to grow at a slower pace for the second year in a row, as its growth rate amounted to 5.5% for 2003 compared to 8.8% in 2002, attributable to price increases of reinforcement steel and misdistribution of quantities of cement sold, with large contracting companies purchasing large quantities of cement thus reducing the quantities available in the market for smaller contractors.

The number of construction companies registered in 2003 rose by 16 from the year before, to 59 companies. By contrast, their capital dropped sharply from JD 4.3 million in 2002 to JD 2.9 million this year. The number of construction permits issued climbed in 2003 by 5.2% against only 0.9% in 2002, and the licensed building areas increased by 11% compared to 20.3% in 2002. Licensed building areas designated for residential purposes were the majority in 2003 (80%) of the total licensed building areas of 8,108.8 thousand square meters. Credit facilities extended by licensed banks to the construction sector increased in 2003 by 5.2% to JD 804.5 million at the end of the year against an increase of 4.9% during 2002, thus representing 15.3% of the total credit facilities extended by licensed banks.[16]

SWOT Analysis – Construction Sector	
Strengths • Global real estate market is increasing, and national is stable so continuous investment • Basic framework for mortgage lending in place • Iraq situation causing influx of people requiring accommodations and offices	**Opportunities** • Growth in hotel development with tourism increase • Residential building expanding in new Amman developments • Foreign Direct Investment
Weaknesses • Relatively small amount of developable land for either agriculture or industry • Criteria and process for environmental clearance burdensome • Site development approval requires interactions with multiple GOJ agencies • Lack of utilities outside urban areas	**Threats** • Lack of enabling policies and skill sets for proper land valuation • Registration process / ownership regs not attractive to international construction operations

[16] Central Bank of Jordan, Annual Report, 2003.

TOURISM

Tourism is a key driver of Jordan's economy as the single largest employer and the second highest producer of foreign exchange, contributing over JD 600 million in revenue, or a current 7.5% of Jordan's GDP annually. The WTO reports that Jordan is one of the few countries in the Middle East to have recorded growth in tourism, and this growth neared 9.8% in 2002. During the first four months of 2004, the number of tourists visiting Jordan increased by an impressive 43.4% compared to the same period in 2003, comprising visitors from other Arab countries as well as Europeans and Americans. Despite these promising near-term numbers, though, tourism is still viewed as a high-risk venture in Jordan, and lags behind in comparison to other Middle Eastern countries. The WTO indicates that nine of the 30 top emerging destination countries are in the Middle East North Africa region. All of them are Arab countries – but Jordan is not among them.

According economic data in the Central Bank of Jordan 2003 Annual report, the "trade, restaurants and hotels" sector value added grew, at constant basic prices, by 4.5% compared with 2.1% in 2002. As for the tourism sector in particular, its performance was impacted in 2003 by the uncertain conditions in the region, especially in the first half of the year, leading to a reduction in the growth rate of its value added at current prices from 8.6% in 2002 to 3.6% in 2003.

Credit facilities extended by licensed banks to tourism sector declined slightly during 2003 by 0.4% compared with a growth of 1.5% in 2002 to reach JD 172.8 million by the year end, thus representing 3.3% of total credit facilities extended by licensed banks. Similarly, credit facilities extended to this sector by the IDB retracted by 2.1% compared to their level at the end of last year to reach JD 32.9 million at the end of 2003.[17]

SWOT Analysis – Tourism Sector	
Strengths • Four main tourism centers well known • Large number of sites to develop • New National Tourism Strategy • Good internal roads and international airports • Political stability • High domestic and regional Arab country demand	**Opportunities** • New product and site development – adventure tours, cultural and nontraditional tourism, tourism linked to medical services visits and conferences • GOJ efforts to attract FDI • As incomes increase so does environmental protection, thereby increasing tourism appeal • Hotels increasing in number and quality
Weaknesses • Lack of reliable statistical data for planning • International perceptions of regional stability • Lack of skilled labor • Weak promotion and marketing • Limited Foreign Direct Investment (FDI)	**Threats** • Instability in the region causing 2001-like decline in global and regional tourism industry • Natural resource linked – limited water and petroleum, i.e. hotels use significant amounts of water

[17] Central Bank of Jordan, Annual Report, 2003.

INDUSTRIAL SECTOR / GARMENT INDUSTRY

Industry in General

There was a marked slowdown in the industrial sector's performance between 2002 and 2003 but its relative importance to GDP remained at almost the same level - 20.0%. The sector's slump is attributable to the reduction in domestic and external demand for many of the sector's products. The decline in the manufacturing industrial production index has not been uniform, with production indices of food products and beverages, fertilizers, cement, "wearing apparel and textiles", and "detergents and soaps" dropping, and production indices of tobacco products, pharmaceuticals, and refined petroleum products increasing. Production from Qualifying Industrial Zones (QIZs) is comprises part of the value added for manufacturing sector.

Available data show an increase in both the number of registered industrial companies and their capital, with the number of newly registered industrial companies reached 426 with a total paid-up capital of JD 12.5 million in 2003. Credit facilities extended by licensed banks to the industrial sector declined by a narrow margin of 0.6% at the end of 2003, comprising 16.7% of total credit facilities extended by licensed banks. By contrast, credit facilities extended to the industrial sector by the Industrial Development Bank (IDB) increased by 0.7%, compared to their level at the end of 2002 to JD 76.7 million at the end of 2003.[18]

Garment Industry

The targets for the Euro-Jordanian Action for the Development of the Enterprise (EJADA)-produced national strategy and action plan to enhance the competitiveness of the garment industry in Jordan for the period 2004-2010 include: total investments of JD 620 million; jobs created – 88,000, new companies established 1,006, and total exports of JD 2,128 billion. It is assumed that some portion (not defined specifically in their report) of that 1,006 new companies will be SMEs. The national strategy assumes that 60% of the financing needs out of the total required investment would be provided by bank loans. The additional 40% is anticipated to come from equity capital should a number of GOJ tax incentives and other enabling environment factors foster an increase in equity availability.[19]

[18] Central Bank of Jordan, Annual Report, 2003.
[19] "The Financing Strategy, Garment Industry", EJADA.

SWOT Analysis – Garment Industry	
Strengths • Does not require sophisticated technology • Efficient infrastructure and telecommunications available • IT is well promoted and integrated • Export and investment-friendly policy	**Weaknesses** • Shortage of skilled labor • Free zone formulas concentrated on QIZ rather than diversified • Lack of SME-supportive financing policies promoting access • Customs clearance period and inland transit time
Opportunities • EU and US Imports of garments from developing countries • Production costs of Asian countries increasing • Advantages of QIZ agreement include • Possible to export to Europe free of duties for products fully produced in Jordan using local inputs	**Threats** • Dismantling of MFA • Leading exporting countries of garments implementing upgrading programs to increase competitiveness • QIZs having business relations with Israel which could be affected by regional instability • Lack of diversification of exports concentrated toward US market

Recommendations

The DCA guarantee facility should be paired with technical assistance and capacity building to complement both the lender and borrower actors in this guarantee facility to facilitate utilization and ensure that risks in lending to SMEs in particular sectors and industries are mitigated. Loan products will have to be developed by the bank to meet medium term loan demand, and tailored to the specific needs and cashflows of businesses within whichever sector or industry the SME borrower is operating in.

ASSESSMENT OF THE SME SECTOR IN JORDAN
IN PREPARATION FOR A DEVELOPMENT CREDIT AUTHORITY
LOAN PORTFOLIO GUARANTEE

Annex A – Economic Indicators for SME Sectors

Main Indicators of Construction Sector 2000-2003

	2000	2001	2002	2003
Value added at current prices (JD million)	203.3	231.0	251.7	279.3
Growth rate at constant prices (%)	1.1	12.5	8.8	5.5
The deflator of the construction sector (1994=100)	86.1	86.9	87.1	91.6
Outstanding credit facilities extended by licensed banks (JD million)	744.9	728.9	764.9	804.5
Number of registered construction companies	74.0	67.0	43.0	59.0
Capital of registered construction companies (JD million)	4.9	3.5	4.3	2.9
Quantity of cement sales to domestic market (in thousands of tons)	2,188.7	2,417.7	2,656.3	2,774.4
Number of permits (thousand)	17,925	21,248	21,433	22,555
Licensed area for building (thousands of sq.m.)	4,921.5	6,071.9	7,306.8	8,108.8

Sources : - Monthly Statistical Bulletin / Central Bank of Jordan.
- Jordan Cement Factories Company.

Main Indicators of Tourism Sector
2000 - 2003

	2000	2001	2002	2003
Number of arrivals (million)	4.6	5.2	5.5	5.3
Gross tourism income/GDP at current basic prices (%)*	10.0	9.1	9.7	9.4
Value added of tourism sector at current prices (JD million)**	260.0	252.3	274.1	284.0
Value added/GDP at current basic prices (%)	5.1	4.6	4.8	4.6
Outstanding credit facilities extended by licensed banks (JD million)	155.2	171.0	173.5	172.8
Outstanding credit facilities extended by the IDB (JD million)	32.5	33.5	33.6	32.9
Number of hotels	452	472	461	458
Number of rooms (thousand)	17.5	19.2	19.4	19.7
Room occupancy ratio (%)	39.5	30.5	32.0	33.7
Employees in hotels (thousand)	9.8	11.4	10.3	10.5
Employees in tourism sector (thousand)	21.5	22.9	21.5	22.1

Sources : - Monthly Statistical Bulletin / Central Bank of Jordan.
- Ministry of Tourism and Antiquities.
- Industrial Development Bank.

* : Gross tourism income according to the balance of payments data.

** : CBJ estimates.

Main Indicators of the Industrial Sector 2000-2003

	2000	2001	2002	2003
Value added at current prices (JD million)	969.4	1,013.3	1,111.0	1,178.3
Growth rate at constant prices (%)	3.9	5.8	12.3	3.2
The deflator of the industrial Sector (1994=100)	111.7	110.3	107.7	110.7
Industrial exports (JD million)*	964.4	1,216.8	1,415.4	1,518.4
"Mining & quarrying" & manufacturing industrial production index	107.1	120.1	127.6	116.2
Number of registered industrial companies	315	384	358	426
Capital of registered industrial companies (JD million)	8.5	7.6	6.7	12.5
Outstanding credit facilities extended by licensed banks (JD million)	784.1	806.3	885.1	879.4
Outstanding credit facilities extended by the IDB (JD million)	88.4	80.4	76.2	76.7

Sources : - Monthly Statistical Bulletin / Central Bank of Jordan

- Industrial Development Bank

* Domestic exports excluding agricultural exports.

ASSESSMENT OF THE SME SECTOR IN JORDAN IN PREPARATION FOR A DEVELOPMENT CREDIT AUTHORITY LOAN PORTFOLIO GUARANTEE

Annex B – Resources Used

i. USAID Documents (listed chronologically)

- AMIR Program Report, "Analysis and Recommendations for the Establishment of a Small Enterprise Component in the National Linkage Program in Jordan", David Lovegrove, October 2004.
- AMIR Program Report, "National Linkages Program Communication Strategy", September 2004.
- AMIR Program Report, "SME Access to Capital in Jordan", Stephen Strauss, August 2004.
- AMIR Program Report, "Jordanian Partner Evaluation/Selection & Mini Sub-Sector Analyses and Selection", Alison Hong, May 2004.
- AMIR Program Report, "National Linkages Program Design Update", The Services Group, January 2004.
- AMIR Program Report, "Investment Promotion Sectoral Strategy 2004-2006: Garment Sector", Al-Jidara Investment Services, November 2003.
- AMIR Program Report, "Jordan Investor Targeting Strategy 2003, An Assessment of Jordan's Competitiveness in Attracting FDI Relative to other Middle East/North African Countries", Charles Krakoff and Al-Jidara Investment Services, July 2003.
- AMIR Program Report, "The 2002 Investor Roadmap of Jordan", The Services Group (TSG) and Al-Jidara Investment Services, December 2002.
- AMIR Program Report, "Analysis and Recommendations for the Establishment of a Backward Linkage Program in Jordan", The Services Group (TSG), May 2000.
- AMIR Program Report, "Investor Promotion Strategic Plan and Investor Service Guidelines", The Services Group (TSG), June 1998.

ii. EJADA Documents (listed chronologically)

- Strategy and Action Plan to Enhance the Competitiveness of The Garment Industry in Jordan", Final Report, Tahar Ben Amor, December 2002.
- "The Financing Strategy, Garment Industry", EJADA.

iii. Ministry of Planning and International Cooperation Documents (listed chronologically)

- "Jordan's Competitiveness Book, Confronting the Competitiveness Challenge", Ministry of Planning and International Cooperation, Jordan National Competitiveness Team, 2003.

iv. Other Documents (listed chronologically)

- "Size Matters: Why SME Financing in Jordan is Inadequate", by Gabi Afram, Business Jordan, April 2005.
- Central Intelligence Agency Factbook, Jordan, 2005.
- "Report on the Observance of Standards and Codes (ROSC)", Corporate Governance Country Assessment, Jordan, World Bank, June 2004.
- Central Bank of Jordan, Annual Report, 2003.
- "Business Plan 2003-2007 for the Jordanian Upgrading and Modernisation Program (JUMP)".
- "USFTA Opportunities Survey", Jordan United States Business Partnership (JUSPB), December 2001.
- Global Competitiveness Report 2003, Jordan Analysis found at http://www.competitiveness.gov.jo/.

Jordan SME LPG – Phasing and Status for Inputs

Activity Schedule for Completing DCA LPG for BOJ SME Lending

Details	Date	Status	Comments
Mission Prepares Concept Paper	February 6, 2005	Completed and Approved by ODC RM	
Mission (through AMIR) prepares DCA analyses and initiaties discussion with RLA (USAID/Jordan Legal Officer)	April 17 - April 30	Underway	
Sample Termsheet Drafted	April 17 - April 30	Completed and being presented to BOJ Sr. Mgmt. on May 2	with ODC RM on April 25. Further modified by the incorporation of BOJ comments on April 26.
Mission (through AMIR) prepares Action Package	April 17 - April 30	Underway	Will be finalized for Mission by no later than April 30
ODC RM sending Jerry subsidy cost estimate to include in CN	April 26, 2005	Completed for $10 million non-revolving facility	This may be modified should the ceiling or revolving nature of the facility change
Program Officer from Mission Prepares Congressional Notification and submits	April 28, 2005	Underway	
Bank of Jordan sending AMIR entire package of FI information for Risk Assessment	April 28, 2005		
Bank of Jordan Senior Management Meeting will provide approval in principle for BOJ Jordan facility	May 2, 2005		
Mission will review Action Package and Monitoring Plan and forward to ODC RM	May 4, 2005		
All Risk Assessment materials will be handed over to USAID/ODC in Washington	May 4, 2005		Financial Institution information and Borrower Research for LPGs.
Paul Freedman, in consultation with Jerry and Legal Officer, negotiate legal agreement in Washington with BOJ	May 10, 2005		Mr. Hamdan, Assistant GM of BOJ will be in Washington, DC May 4 - 17.
ODC Prepares Risk Assessment and final Subsidy Calculation	May 15, 2005		It is anticipated that the risk assessment will be completed off-site as a desk review.
CRB receives entire completed Action Package one week prior to meeting	May 26, 2005		
CRB Reviews Action Package and Recommends Approval	June 2, 2005		
CFO Approves Subsidy Cost	June 9, 2005		
Funding Transfer Occurs	June 15, 2005		
Certifications and legal opinions on lender related to AML / Anti-terrorism and drug financing	July 15, 2005		
Guarantee Agreement Signed and Project Obligated	July 1, 2005		

Final Action Package

USAID
FROM THE AMERICAN PEOPLE

June 2, 2005

ACTION MEMORANDUM

TO: Lisa Fiely, Chief Financial Officer

FROM: David Ostermeyer, Chairman of the Credit Review Board

SUBJECT: CRB Recommendation for Approval of a Development Credit Authority Activity in Jordan

As described in the attached documents, USAID/Jordan intends to sign a loan guarantee agreement with the Bank of Jordan in Jordan in support of the Mission's SO Number 10 – Increased Economic Opportunities for Jordanians. To successfully implement this agreement, EGAT/DC and USAID/Jordan have designed a Monitoring Plan and agree to adhere to the responsibilities as outlined in that document. The Credit Review Board has reviewed this transaction and found that the risk has been appropriately assessed and that there is reasonable assurance of repayment of the obligations covered by these guarantees. Furthermore, the CRB has approved the subsidy cost to be associated with this activity and believes the Office of Development Credit has adequately provisioned for the risk entailed in this prospective agreement.

RECOMMENDATION

That the CFO sign below and thereby approve the findings of the Credit Review Board and the recommendation of the Chairman of the Credit Review Board with regard to this activity.

Approval:

Lisa Fiely Date
CFO

Mission Approval:

Anne Aarnes 5/4/05
Anne Aarnes Date
Mission Director

Attachments:

I. Project Information Sheet
II. Activity Description
III. Economic Justification
IV. Risk Assessment
V. Subsidy Cost Calculation
VI. Financial Statements & Additional Information

CC: CRB Members, RLA

Attachment VI: Financial Statements & Additional Information
U.S. Agency for International Development
SME Lending in Jordan (BOJ)

Project Identifier:	SME Lending in Jordan (BOJ)

Country	Jordan	**Mission/Bureau**	Jordan
Mission/Bureau Program Officer	Jerry Florkowski	**Investment Officer**	TBD
ODC Regional Officer	Alison Eskesen		
	Recommend Approval:	**Chief Risk Officer**	Kathleen Wu

Type	Loan Portfolio Guarantee	**Guarantee Number**	TBD
Lender(s) /Guaranteed Party (incl. contact information)	Bank Of Jordan, Jordan Head Office - P.O. Box 2140 Amman 11181 Jordan Tel: +962-6-569-6122		

Borrower(s)	Small and Medium Enterprises (SMEs) established and operating in Jordan.

Mission SO(s) Supported by Activity

SO Number 10 – Increased Economic Opportunities for Jordanians

The US Government's Economic Development Goal in Jordan is Broad-based, market-oriented growth accompanied by increasing investment, better standards of living and enhanced economic opportunities for all Jordanians. USAID/Jordan's SO Number 10: Increased Opportunities for Jordanians supports three intermediate results:

1. Transparent, efficient, and responsive public sector;
2. More effective policy and regulatory reform; and
3. Increased depth of private sector growth.

Sector

SME Development – Private Enterprise

Activity Description *(one paragraph)*

This DCA loan portfolio guarantee (LPG) will facilitate access to working capital and longer term capital expenditure financing for small and medium enterprises (SME) which are currently underserved by the financial sector. The guarantee will complement technical assistance initiatives being undertaken by USAID to strengthen SMEs and the banking industry. Qualifying borrowers will include financially viable SMEs, defined as having 5 to 250 employees, operating in any sector of the economy, including those that are exporting or provide inputs to exporters.

Performance Indicators *(Please provide a list of key measures of the benefits and performance of this activity)*

1. Utilization of total authorized amount;
2. Number of new loans disbursed by the lender; and
3. Number of SMEs receiving loans.

Attachment VI: Financial Statements & Additional Information
U.S. Agency for International Development
SME Lending in Jordan (BOJ)

Target timeframe for obligation	June 2005
Subsidy funding source *(expiration date, type, source)*	FY 2005 ESF – budget authority expires September 30, 2005

Max. Cum. Disbursements ($)	10,000,000	**Guarantee currency**	Jordanian Dinar, US Dollar, Euro
Term *(years)*	8	**Type of Risk sharing**	Pari passu
Interest Rate (%)	8-12% will vary by currency	**Guarantee percentage**	50%
Revolving?		**Guarantee ceiling ($)**	5,000,000
Initial Disbursement *(year)*		**Payment guaranteed**	Principal Only

Notes on transaction terms & claim requirements	

Commitment Fee ($)	1.25% or $62,500 – Non-reimbursable				
Utilization Fee (%) p.a.	1.00%	**Util. fee payment Basis**	Semi-annual	**NPV ($)**	

For Loan Portfolio Guarantees (LPGs)		**For Bond Guarantees**	
Est. number of sub loans	50	**Type**	
Est. avg., sub-loan maturity (years)	2	**Coupon (%)**	
Est. avg. size of sub-loans ($)	200,000	**Trustee**	
Max. auth. Portfolio Amount ($)	10,000,000	**Investors**	
Final year of loan disbursement	Year 7	**Secondary Investors**	

Subsidy Cost	$	%	**Net Defaults**	%	**Fees**	%	**Single effective rate**	%

Risk Score		**Expected cum. Default rate**	%
Country	# (%)	**Borrower**	# (%)
Lender	# (%)	**Transaction**	# (%)

Key Risk Factors: *Brief list of key factors (e.g., nature of the lending activity, specific management concerns, sectoral concerns, etc.)*

- Performance of Bank of Jordan originating quality portfolio
- Recoveries on non-performing assets
- Limited capacity of SMEs in Jordan

Special conditions for approval:

Attachment VI: Financial Statements & Additional Information
U.S. Agency for International Development
SME Lending in Jordan (BOJ)

Background

The Hashemite Kingdom of Jordan is a democratic monarchy that faces the critical challenge of spurring economic growth and generating employment. According to Emerging Jordan 2004, "unemployment and poverty remain two of Jordan's most intractable problems." The Government of Jordan (GOJ) states the unemployment rate in 2003 at 16% of the labor force. However other estimates, which include underemployment and employment in the informal sector, place the unemployment rate between 25-30%. The poverty rate is approximately 30% according to the GOJ. USAID/Jordan supports the GOJ's long-term vision and strategy for increasing economic activity and job creation.

Small and medium enterprises (SMEs) are among the most active creators of new jobs and economic activity in developing economies. Growth in this sector is, however, typically inhibited by undercapitalization within the enterprise and limited access to capital from external sources. The limitation in access to capital arises as a result of the innate conservatism and restricted business models characteristic of Jordan's established capital sources – commercial banks – and a lack of development in the local intermediary financial institution (IFI) sector. Raising capital through equity or bond markets is not a viable alternative for SMEs in Jordan's still developing capital market environment.

According to a 2004 USAID report, *SME Access to Capital in Jordan*, an effective program to develop SME access to capital in Jordan should focus on the following measures: (i) the provision of incentives to commercial banks to support lending to SMEs through (a) provision of loan guarantees for 50 percent of the loan extended ....and (iv) the provision of technical assistance to SME owner-managers to develop know-how in the areas of cash-flow management, financial reporting and strategic business development. This guarantee will directly respond to these recommendations and address the needs of both SMEs and the banking sector in matching credit supply and demand.

USAID/Jordan has a combination of already established technical assistance programs that focus on small and medium-sized businesses and support increased trade. The Mission proposes to augment the development impact of these programs with a partial guarantee to facilitate SME financing for working capital and medium and long-term financing for capital investment.

Development Objective

Substantial liquidity in the financial sector, stable inflation and exchange rates, relatively strong local and international financial institutions, and a burgeoning capital market all contribute to making Jordan an optimal country for private sector financing of development projects. Nonetheless, SME lending remains short-term and not broadly accessible due to risk perceptions of financial institutions, information asymmetry, and limited term money in the financial system. A summary list of the factors constraining SME access to finance includes:

- Information asymmetry – no reliable comprehensive credit reference information system.
- SMEs have opaque financial statements, poor business plans, and limited traditional collateral/security to pledge.
- Very limited medium- and long-term funds in financial system so difficult for banks to lend for SME capital investment.
- Commercial banks are conservative and have focused on large corporate clients and low risk returns.

- Limited capacity to properly analyze SME borrowers; evaluate, mitigate, and appropriately price risk.

- Legal environment not conducive to Receivables-based financing.

The proposed guarantee will support increased SME access to working capital, and medium and long term financing for the purchase of equipment and technology. The DCA facility will provide the bank with a partial guarantee on multiple loans made to SMEs in all sectors and in all geographic areas of Jordan. Through more accessible working capital, targeted capital investment, and business development assistance, SMEs will increase their contribution to national economic growth by expanding their production, improving their efficiency, and hiring more employees.

USAID/Jordan's main objectives with this activity are to increase SME access to finance, thereby increasing incomes, creating employment and stimulating economic growth. Loans under the facility are not proposed for certain sectors, instead remain broadly defined to include activities that stimulate economic prosperity. Based on discussions with the Bank of Jordan, the activity intends to mobilize $10,000,000 to Jordanian SMEs through market rate loans over the period of the guarantee.

Technical Assistance

USAID's most successful DCA activities have been those that are mutually reinforcing with ongoing technical assistance and policy reform initiatives. This DCA activity to increase access to credit for Jordanian SMEs has direct synergies and will coordinate closely with these and other programs:

- USAID-funded National Linkages Program (SME Capacity Building)

- USAID-funded Financial Operations Results FOR-Jordan Project (SME and Banker Training)

- USAID-funded Jordanian-US Business Partnership (JUSBP) – now transforming to (Business Development Service Center)

- USAID's Achievement of Market-Friendly Initiatives and Results (AMIR) Program
  -Financial Markets Development Component
  -Enhanced Competitiveness Initiative Component

- EU-funded Euro-Jordanian Action for the Development of Enterprise (EJADA) (SME and Banker TA)

<u>National Linkages Program</u>

USAID/Jordan has initiated the National Linkages Program, which dovetails with the GOJ's competitiveness program for SMEs (Jordan Upgrading and Modernization Programme's - JUMP). It also complements USAID funded technical assistance to the Aqaba Development Corporation, the Aqaba International Industrial Estate, and the Zarka Chamber of Industry. The National Linkages Program (NLP) facilitates backward linkages to assist SMEs grow and access the international market. NLP is demand-driven, focusing on the exporters' input needs and then assisting SMEs in becoming accredited suppliers to these large companies, thus creating the backward linkage. Backward linkages are inter-firm relationships, where large corporations regularly purchase intermediate goods and services as production inputs from one or more local SMEs in the production chain.

NLP will broker backward linkages with large Jordanian companies and local SME suppliers. NLP will also strengthen local SMEs through technology transfer and skills upgrading to ensure the consistent quality of inputs. NLP will conduct an audit of the SME supply company, identifying management and production inefficiencies, and will assist the SMEs upgrade their systems and processes to meet the exporters' needs. NLP will provide grants up to 30 percent of the cost to participating SMEs that want to upgrade equipment or invest in technology. The remaining 70 percent the SME must finance itself. It is anticipated that many SMEs will seek private financing for a portion of the 70 percent not covered by NLP for such equipment and technology purchases.

The ultimate success of NLP will lie in the ability of SMEs to implement their upgrading programs, especially in the area of new capital investment, key to achieving accredited supplier status with large exporters. Based on current loan tenors to SMEs, it is expected that most SMEs will face difficulty accessing medium-term financing for the purchase of new machinery, for increased stock levels, and for the acquisition of new technology. The proposed partial guarantee will facilitate the bank extending loan tenors of at least three years or more to SMEs.

FOR-Jordan Project

The goal of the FOR-Jordan Project is to improve the ability of Jordanian banks to safely and confidently lend to SMEs, and to increase the competitiveness of Jordanian SMEs. FOR-Jordan workshops will employ an integrated strategy to:

- Provide SMEs with tools and training with which to develop, implement, and measure financial and operational strategies
- Provide banks with tools and training for better risk assessment and management and introduce new lending methodologies appropriate for SMEs.

The project will be delivering multiple workshops for both SMEs and banks through September 2005. Workshops for SMEs focus on understanding the business' financial position, improving financial statements, and how to present a business plan to banks. For banks, training focuses on credit analysis, risk assessment, credit scoring, and non-financial analysis. Both groups are introduced to the Uniform Finanical Reporting System (UFRS). The UFRS is an IAS compliant reporting and internal management tool which allows a company to understand its financial performance and to present its financial position effectively to banks, potential suppliers, customers, and investors. The Credit Officer version of the UFRS is designed for bankers and financial analysts as a tool to convert financial information provided by companies into a common format, with which current and projected financial performance can be easily understood and converted into a credit score.

Bank of Jordan has already sent a number of its Credit Officers to FOR-Jordan's cost-shared bank training, and is in discussions with FOR-Jordan to arrange an in-house more customized training for Bank of Jordan staff only to increase the knowledge and skill set within the credit department about SME lending techniques. Pairing this type of technical assistance with the guarantee will contribute significantly to its successful utilization.

JUSBP

The Jordan-United States Business Partnership (JUSBP) is a USAID-funded economic development program providing financial assistance to private businesses in Jordan, focusing on Small and Medium-Sized Enterprises (SMEs). Designed to provide assistance to Jordanian companies, JUSBP conducts most of its work at the "firm level" to improve the business capabilities of client enterprises. This involves direct support for improvements in management, marketing, technology, production methods, quality assurance, financial management, and human resources, among other priorities. JUSBP, and its follow on the Business Development Service Center, will serve as a potential referral source for SME clients for BOJ.

A major thrust of JUSBP is to improve the ability of Jordanian companies to compete in international markets through expanded trade opportunities. As a U.S. assistance program, JUSBP emphasizes trade with the United States, particularly advantages that are available under the Jordan-United States Free Trade Agreement. JUSBP addresses these export priorities through the Export Fast Track Activity Program, EFTAP. The Global Trade and Technology Network (GTN), is also housed at JUSBP, offering a network of trade specialists to help companies with international trade transactions. JUSBP works in most economic sectors with private business associations that seek to develop the commercial interests of Jordan. The program provides assistance to these associations for business development, training, member services, trade enhancement, and networking with global associations and industry groups. JUSBP also established a comprehensive industrial and human resources training program with both private and public sector constituents, and offers a unique Internship Program "Maharat" for Jordanian university graduates. Other JUSBP initiatives include, Faculty-to-Factory, Increasing the Competitiveness of Jordanian Women Owned Businesses, Certified Manager Program and the Certified Trade Advisors.

<u>AMIR</u>

The AMIR Program is an innovative economic opportunity project funded by (USAID) and implemented in partnership with the Jordanian private sector and government. The current phase, launched in February 2002, builds on the impressive success of the original phase of the program, which from 1998 to 2002 promoted economic growth and prosperity in Jordan by developing a more favorable environment for business and investment. The current phase is broader in scope, engaging the government and the private sector through a series of expanded initiatives. In October 2004, program's work was re-organized, creating a new initiative to capitalize on linkages across the program. In partnership with the people and government of Jordan, the AMIR Program is creating a globally recognized economic success story through its work on four major initiatives. Out of the four, the Enhanced Competitiveness Initiative (ECI) and Financial Markets Development (FMD) are the components that will most integrally complement the DCA LPG for SME lending with Bank of Jordan.

The Enhanced Competitiveness Initiative (ECI) aims to improve Jordan's national competitiveness. "Competitiveness" refers to Jordan's ability to create robust, sustained economic growth, while improving the quality of life of its citizens through increased employment and incomes. Improving competitiveness involves creating a favorable environment for doing business, encouraging investment, developing enterprise, and upgrading human resources to improve the productivity of local firms. It requires a continuous and focused national effort that is undertaken by a partnership which includes the government of Jordan, the private sector, and civil society. ECI focuses on the following priority challenges: creating effective public institutions for economic policy development and implementation; organizing key private sector constituencies; providing business development services in underserved segments of the economy that demonstrate high potential; fostering public-private partnerships for economic policy formulation; and building business management capacities. Key Initiatives ECI is undertaking include: Business Association Strengthening; Business Development Services; Business Skills Development; Investment Promotion; and Public-Private Partnership Support.

Attachment VI: Financial Statements & Additional Information
U.S. Agency for International Development
SME Lending in Jordan (BOJ)

The Financial Markets Development Initiative (FMD) works with Jordan's capital and financial markets institutions to develop a fair, efficient, liquid, and transparent market to inspire domestic and international investor confidence. During the first phase of the AMIR Program, the initiative focused on capital markets development in the areas of regulatory reform, institution building, and improving the efficiency and stability of Jordan's three capital market institutions: the Jordan Securities Commission (JSC), the Amman Stock Exchange (ASE) and the Securities Depository Center (SDC).

During the second phase of the program, this initiative is working to broaden and deepen Jordan's financial markets by leveraging unused capital for developing and modernizing financial institutions, accomplished through enhancing banking laws and bank supervision, developing equity market regulations, introducing new investment instruments, developing the government bond market and housing finance market, and expanding the investment portfolio of the social security fund. These approaches help to address the causes of illiquidity in long-term finance and harness Jordan's US$2 billion locked in low-yield investments that have little development impact. Key Initiatives and Entities FMD is working with include: Central Bank of Jordan; Capital Markets Development: Jordan Securities Commission, Amman Stock Exchange, Securities Depository Center; Pension Fund (Social Security Investment Commission); Jordan Mortgage Refinance Corporation; Banks and Financial Institutions; Chartered Financial Analyst Program; and Ministry of Finance.

EJADA

The EU-funded Euro-Jordanian Action for the Development of Enterprise Program (EJADA) is dedicated to facilitate the integration of the Euro-Mediterranean free trade area through its work to modernise and upgrade Jordanian industry, while improving the competitiveness of small & medium size enterprises (SMEs) and their environment. EJADA's aim is to broaden the scope of activities and knowledge base by operating through four specialised yet diverse components that work directly and indirectly with Jordanian SMEs. EJADA's four components are designed to provide an integrated set of services for SMEs, but each has a distinctly different role, which are: Direct Support to SMEs; Financial Support Services; Vocational Training and Human Resources Development; Policy Support and Institutional Strengthening. As part of its Financial Support Services Component, EJADA sourced an advisor to BOJ to assist the bank with the development of its SME strategy.

EJADA has a Loan Guarantee Scheme which is run by the Jordan Loan Guarantee Corporation. Under this scheme up to 70% of the lending risk of banks which lend to SMEs is covered by a special fund (up to €6 million) financed by EJADA. Loans between JD28, 500 and JD 428,500 for new investment in premises, machinery and equipment are eligible for the scheme, where the borrower can demonstrate a viable business plan and an ability to meet repayments.

BOJ has participated in EJADA's loan guarantee scheme but has placed only 4 loans under their 70%-30% risk sharing arrangement. The bank believes that even with the reduced coverage percentage offered by the USAID DCA facility, they find it more attractive an incentive and will actively utilize the facility. For EJADA's loan guarantee scheme, credit analysis, due diligence, and credit approvals are undertaken in close coordination on a loan-by-loan basis with EJADA, and EJADA has the final approval on credit decisions. BOJ feels that its credit teams will better increase their capacity in undertaking the entire process on their own, with targeted technical assistance and training as needed, using the DCA mechanism.

Additionally, the EJADA guarantee program is much narrower in its qualifying borrower pool, limiting lending to the manufacturing and services sectors, fixed asset purchase loans only, and the tenor must be between three to eight years. Since this DCA activity is restrictive on the loan size and tenor only by the maximum, and leaves the sectors and credit decision process to the bank, Bank of Jordan is eager to work with USAID through this DCA guarantee facility.

Proposed Guarantee Structure

The proposed Loan Portfolio Guarantees will be for 8 years and have a total facility ceiling of USD $10,000,000. It will be under a single legal agreement with the Bank of Jordan. This DCA loan portfolio guarantee (LPG) will facilitate access to working capital and longer term investment and asset purchase financing for small and medium enterprises (SMEs) currently underserved by the financial sector. The guarantee will complement technical assistance initiatives being undertaken by USAID to strengthen SMEs and the banking industry. Qualifying borrowers will include financially viable SMEs, defined as having 5 to 250 employees, operating in any sector of the economy, including those that are exporting or provide inputs to exporters. While USAID believes that many of the borrowers will come from the technical assistance provided by NLP and other technical assistance partners as described above, the Mission has elected not to limit borrowers to only those participating in a USAID- or other donor-funded programs, to encourage the bank to utilize the guarantee facility to explore the SME market and continue to do so in a sustainable manner after the guarantee period.

Bank Partner

Bank of Jordan (BOJ) was established in 1960 by a group of Jordanian businessmen. It is the third largest bank in Jordan in terms of assets with a 4.5% share of deposits and a 5.5% share of loans at the end of 2002. It offers a range of retail and corporate banking products, complemented by some treasury and investment services. It is a domestic commercial bank, the third largest in Jordan, with an expanding network of over 71 outlets and 28 ATMs. It also has 5 branches in Palestine with that branch network engaging as of summer 2004 in another USAID DCA LPG for SME lending through the USAID/West Bank and Gaza Mission. Bank of Jordan's major shareholder is the Fakhoury Group, a prominent business family group. BOJ's Vision and Mission present the values of the bank's management which is progressive within the Jordanian context.

Vision. "To be the pioneering bank in Jordan, and in any other country in which we are present; a leader in fulfilling the financial and banking needs and expectations of our customers, continuously developing and enhancing our service to build a lasting and distinguished relationship with them."

Mission. "We will be energetic in our quest to become our customers' strongest and closest partners, to maintain our position as their bank of choice. We will fulfill our customers' needs and anticipate their expectations by offering an advanced range of value-added services and solutions that help our customers achieve their ambitions for a prosperous future. We will be transparent and fair in our dealings, and will conduct ourselves professionally and with a motivated team spirit. We will strive to raise the standard of our organization, and will work together to be a positive and practical role model in the continuing development of our community."

The bank experienced a 12% growth rate in its net direct credit facilities during 2004, ending at JD 398.8 million ($282,350,400), and total customer deposits increased over 2004 to JD 761.2 million ($538,929,600). SME lending will fall under the Bank of Jordan's Commercial Credit Department. The total outstandings for the Commercial Credit Department as of March 30, 2005 are at JD 57 million ($40,356,000) with 4218 borrowers. Sectoral breakouts include mining (.95%), construction (9.8%), light industry (8.9%), agriculture (3.3%), small trading (25.3%), transportation (5.6%), tourism (2.06%), services (36.9%), retail (6%), and other (1.19%).

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SME Lending in Jordan (BOJ)

Many factors indicate that Bank of Jordan will be a committed and valuable USAID DCA partner bank, including:

- BOJ is a local Jordanian-owned bank.
- SME lending is part of their long-term business strategy.
- BOJ has a wide branch network for outreach to SMEs across Jordan.
- BOJ, unlike many other banks in Jordan is not engaged in speculative activities – for instance, other large commercial banks have been offering large trading on margin accounts for customers day trading on the Amman stock exchange.
- BOJ Senior Management has made a significant and ongoing commitment to moving systematically into the SME market and working with USAID. They have demonstrated this by: continuing to benefit from the assistance of an embedded EU-funded SME Advisor; actively participating in FOR-Jordan SME Credit Analysis training and requested in-house training; and establishing a recent DCA LPG for SME lending with USAID/West Bank and Gaza.

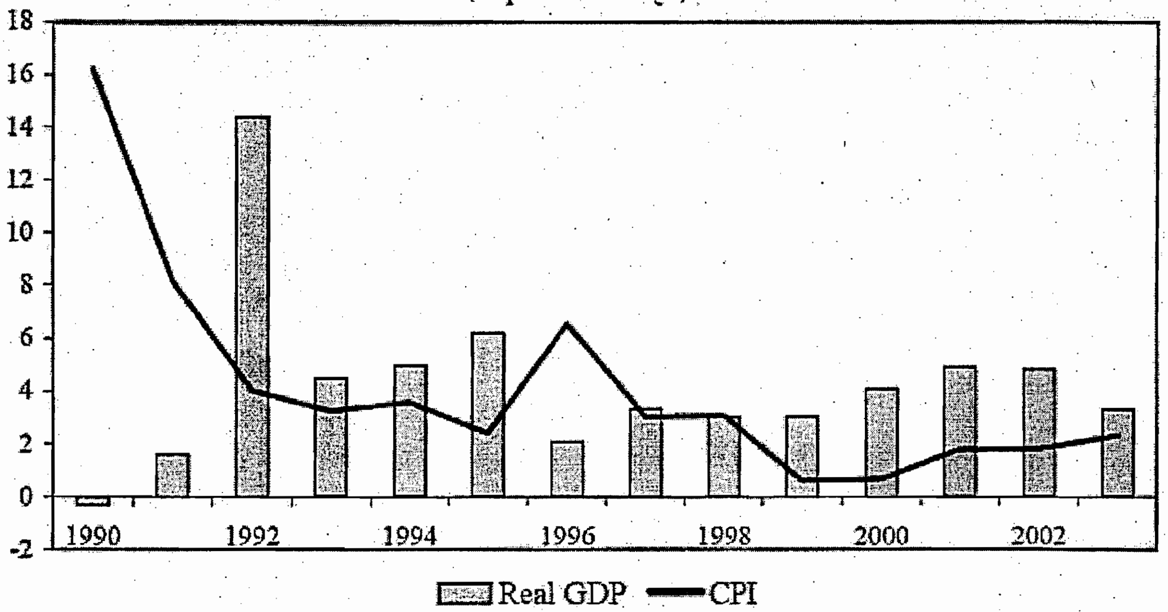
Attachment III: Economic Justification
U.S. Agency for International Development
SME Lending in Jordan (BOJ)

Economic Growth Rate

International confidence in Jordan's economy remains high with recent upgrades in the soveriegn rating by Moody's and Capital Intelligence in September 2003. According to Emerging Jordan 2004, "Moody's highlighted trade liberalization, fiscal reform, and privatization as three areas where the government has made particular progress." This is despite the disruption in economic growth as a result of Iraq war, which curbed tourism and placed into question Jordan's historical access to free Iraqi oil.

Jordan has a population of about 5 million, and a per capita gross national income estimated at about US$1,800 in 2002—higher than the average for lower-middle-income countries (US$1,400) but less than the average for countries in the Middle East and North Africa (US$2,200). Jordan's economy is closely tied to those of other countries in the Middle East. Three notable features are: remittances from Jordanians working in other countries, especially in the Gulf states, are an important source of national income (equivalent to15–20 percent of GDP); the region is the primary destination for Jordanian exports and in turn supplies the bulk of Jordan's energy requirements; and Jordan receives substantial aid from countries in the region. Economic performance has been marked by successful disinflation and fluctuations in real GDP growth over a wide range (Fig. 1). (International Monetary Fund and Jordan: Issues Paper. Prepared by the Independent Evaluation Office. November 19, 2004.)

Figure 1. Real GDP Growth and CPI Inflation
(In percent change)



Source: Central Bank of Jordan

Attachment VI: Financial Statements & Additional Information
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SME Lending in Jordan (BOJ)

Banking and Financial Markets

Domestic liquidity grew by 12.4% against 7.0% over the period 2002 to 2003. Moreover, the CBJ's foreign reserves continued to rise remarkably. They rose by US$ 1.2 billion in 2003, to reach, by the year's end, a balance of US$ 4.7 billion; an amount that is enough to finance more than 9 months-worth of the Kingdom's imports of goods and services. The CBJ made several reductions in interest rates during 2003 trying to create a downward influence on market interest rates. These reductions came in light of the reductions in international interest rates and to stimulate domestic economic activity. Banks responded positively to this trend by lowering both the lending and deposit interest rates. However, reductions in the deposit interest rate have far exceeded the reduction in lending rates.

The financial sector in Jordan includes 19 commercial banks, 2 Islamic banks, and 4 public or joint ownership banks, and 26 insurance companies. Total deposits at licensed banks increased in 2003 by JD 601.7 million, or 6.4%. This rise was mainly concentrated in deposits of private sector (resident), which grew by 14.4%. On the other hand, credit facilities extended by licensed banks grew by a modest rate of 2.6% as a consequence of the heightened uncertainty that prevailed in the region. (Central Bank of Jordan Annual Report 2003)

Market imperfections

Currently, the majority of lending in Jordan to SMEs is in the form of overdraft accounts. As stated by some private sector banks, their clients prefer overdraft accounts despite higher interest costs because there is no amortization schedule to which they are tied. However, the Central Bank has regulated that by 2007 no more than 20% of a bank's portfolio can be in overdraft accounts. Thus, banks will be forced to offer term loans. While most banks have noted that working capital loans to SMEs is viable and somewhat available to a limited group of SMEs, overwhelmingly they are hesitant to extend tenors. Most banks noted that 3-year financing to SMEs is extremely restricted, despite having significant liquidity. Jordan is dealing with a systemic dearth of long term funds in the system, but it is hoped that the guarantee will stimulate the bank to explore solutions such as the issuance of longer term Certificates of Deposit to correct that mismatch to be able to offer longer tenor loans on a sustainable basis.

Factors constraining SME access to finance includes:

- Information asymmetry – no reliable comprehensive credit reference information system.
- SMEs have opaque financial statements, poor business plans, and limited traditional collateral/security to pledge.
- Very limited medium- and long-term funds in financial system so difficult for banks to lend for SME capital investment.
- Commercial banks are conservative and have focused on large corporates and easy T-bill returns.
- Limited capacity in the banking sector to properly analyze SME borrowers; evaluate, mitigate, and appropriately price risk.
- Legal environment not conducive to Receivables-based financing.

Bank of Jordan will use the DCA guarantee to make loans to new SME clients identified through the aforementioned technical assistance programs, through their current client base, and through their branch network. They are at the point of finalizing their SME Strategy developed in cooperation with an EU-funded advisor, which will include some new product development and piloting for this market, timing for which coordinates very well with the expected establishment of the guarantee facility. Concurrently, BOJ will continue to explore options for building capacity within the bank to understand and analyze SME businesses, and with the guarantee BOJ will be able to reduce borrower collateral requirements, although they will continue to price loans according to risk at market rates.

Additionality

The proposed guarantee does not crowd out private lending to SMEs because there is almost no bank lending beyond three years to SMEs, and there is limited receivables-based financing for working capital. While there are some EU and GOJ guarantee funds to encourage the banking sector to lend to SMEs, their structure, narrow parameters for qualifying borrowers, burdensome administrative procedures, and inteference in the credit decision making process makes them unattractive to the banks and they are not making use of them. Hence there is no overlap between the DCA facility and any other guarantee fund.

Without the guarantee, Bank of Jordan would not move forward with lending to the a broader array of SMEs or with developing longer term loan products for SMEs. The guarantee complements and enhances Bank of Jordan's ongoing investments in exploring the SME lending market including training, technical assistance, and the development of new financial products. Additionally, while BOJ has made a timid step towards extended loan tenors, the guarantee will increase their comfort level in lending for more than 3 years, and they do have some existing client demand for 5 year loans they have not been able to meet yet due to their risk perception.

The guarantee will provide a demonstration effect that lending to SMEs is profitable, both to Bank of Jordan and the wider banking industry. The complementary support provided by the USAID and other training and technical assistance programs will mutually reinforce the guarantee facility to catalyze lending to Jordanian SMEs. As the guarantee facility is utilized and loans are placed, SME credit histories will be established, and it is expected that SME borrowers able to access credit without a guarantee either through Bank of Jordan or another lender. As DCA has seen in other countries, once other banks take notice of BOJ's successful penetration of the SME market it is anticipated that it will spur competition leading to more affordable credit for SMEs. Concurrently a portion of the excess liquidity in the financial sector will be absorbed and put to productive use.

Attachment VI: Financial Statements & Additional Information
U.S. Agency for International Development
SME Lending in Jordan (BOJ)

Provided by the Office of Development Credit

Attachment VI: Financial Statements & Additional Information
U.S. Agency for International Development
SME Lending in Jordan (BOJ)

Provided by the Office of Development Credit

Attachment VI: Financial Statements & Additional Information
U.S. Agency for International Development
Bank of Jordan - SME

Provided by the Office of Development Credit.

Clearance Page – Action Memorandum

Mike Harvey, Deputy Director MH 5/09/05
Jim Barnhart, EO JCB 5/2/04
Dave Barth, RLA DB 5/4/05
Brooke Isham, OPM 5/4/05
Andy Plitt, FMO 5/4/05

Final Monitoring Plan

DEVELOPMENT CREDIT AUTHORITY (DCA) MONITORING PLAN

BANK OF JORDAN – LOAN PORTFOLIO GUARANTEE FOR SME LENDING

Monitoring is a coordinated effort between the Mission and the Office of Development Credit (EGAT/DC). Monitoring responsibilities are divided into Development and Financial activities.

The mission is solely responsible for Development Monitoring of the loan portfolio guarantee (LPG), whereas the responsibility for Financial Monitoring throughout the period of the activity, is shared with both EGAT/DC and the Mission.

USAID/Jordan will be assisted in its Development Monitoring and Financial Monitoring responsibilities by the Achievement of Market-Friendly Initiatives and Results (AMIR) Program through July 2006. The AMIR Program will support USAID approximately two person days/month for the first 3 months, decreasing to one person day/month for the remaining 9 months. Support will include:

- Working with USAID and the bank to promote clear understanding of compliance with the legal agreement, reporting requirements, the definition of qualifying borrowers, and field any other questions or issues that may arise;
- Monitoring bank to ensure fee payment when due;
- Liaising with the bank to ensure proper and timely semi-annual and annual reporting through the internet CMS reporting system;
- Developing and maintaining a data base of DCA usage by the bank;
- Processing claims applications from the bank and follow up with USAID/Washington until the point of claim payment;
- Monitoring DCA portfolio for potential problem loans and potential defaults;
- Working with bank to ensure appropriate collections practices for any claims;
- Encouraging participating bank utilization by facilitating communication and coordination between the bank and appropriate SME strengthening programs, bank training programs, and other initiatives to assist the bank in understanding the SME sector;
- Preparing quarterly summary reports and any ad hoc reports as required;
- Conducting annual site visit if occurring within the timeframe allotted; and
- Training the follow-on entity on DCA and the monitoring role.

DEVELOPMENT MONITORING

This DCA guarantee facility will contribute to the achievement of USAID/Jordan's SO Number 10 – Increased Economic Opportunity for Jordanians. The US Government's Economic Development Goal in Jordan is broad-based, market-oriented growth accompanied by expanding investment, improving standards of living and enhanced economic opportunities for all Jordanians. Three intermediate results support SO Number 10 - Increased Opportunity for Jordanians. These include:

1. Increased access to business services;
2. More effective identification and implementation of policy reforms; and

3. An improved environment for sustained policy reform.

The DCA LPG specifically complements and reinforces IR1: Increased Access to Business Services, in that access to financial services is equally as important as other non-financial aspects of business services such as management capacity building, to facilitating business growth and expansion. The indicators the Mission will use to monitor the guarantee on an ongoing basis are:

1. Percentage utilization of total authorized amount;
2. Number of new loans disbursed by the lender; and
3. Number of SMEs receiving loans.

The Mission will also request that EGAT/DC forward the synthesized information compiled through the Credit Management System (CMS) Annual Data Questionnaire (ADQ) that all guaranteed parties complete annually to obtain qualitative measures of the impact of DCA guarantees. The type of information collected in the ADQ is described further in Section iii.

FINANCIAL MONITORING

Financial Monitoring activities include ensuring that fees are paid, reporting requirements are met, documenting completion of conditions precedent (when applicable), making site-visits, and closing out the facility upon expiration. The EGAT/DC Portfolio Management (PM) team takes primary responsibility for Financial Monitoring. EGAT/DC will create and manage source files for all DCA facilities and be the primary resource for financial reporting on DCA activities within the Agency.

The coordinated effort in monitoring requires that the Mission and EGAT/DC staff work as a team. The Mission establishes and maintains the primary relationship with the partner financial institution (FI), or guaranteed party, and acts as the liaison between the FI and the EGAT/DC in Washington. The liaison role is supported by the EGAT/DC Project Development (PD) team Relationship Manager who together with the Mission ensure:

- Frequent contact with the FI's management.
- Timely and compliant submission of required documents and reports.
- Prompt remittance of USAID origination and utilization fee payments from FIs.
- Communication with EGAT/DC Portfolio Management if problems arise or certain conditions change that either reduce or improve the financial stability of the FI or the Borrowers.

This monitoring plan outlines detailed requirements for Financial Monitoring activities. A monitoring plan may include additional monitoring duties if deemed necessary by Mission Officer(s) responsible for a DCA activity and/or EGAT/DC Relationship Managers. These additional duties may arise due to the particular structure of the guarantee facility, the status of the guaranteed party or the desired development outcomes. The duties detailed below are performed throughout the life of the guarantee facility. Each monitoring activity must be conducted according to this monitoring plan. The EGAT/DC PM team will ensure that the DCA files in Washington are maintained to document all monitoring activities as outlined in this plan.

i. REPORTING

For examples of any of the following reports, templates should be included as an attachment to the legal agreement signed between USAID and the guaranteed party. Prior to signing this agreement, Missions should contact EGAT/DC for examples/templates.

a) TRANSACTION REPORT (TR)

Most LPGs require the guaranteed party to submit a Transaction Report (TR) for each loan that is placed under guarantee coverage. A TR is a data sheet containing information about the loan and the borrower. In the case of large volume LPGs, TRs can be structured to be extremely concise with only key data required, such as the loan date, borrower name, loan amount, loan purpose. Guaranteed parties submit TRs to the Mission and to EGAT/DC through an Internet-based system – Credit Management System (CMS). CMS will only track the basic information of a TR. If there is specific performance compliance data to check, e.g. asset size of borrower, the guaranteed party may still be required by the Mission to submit paper or electronic TRs. The frequency of submitting TRs varies. They can be entered in CMS in "real time" as the loans are placed under coverage. Alternatively, Missions may decide to allow banks to submit TR data with QLS information on a semiannual basis.

Missions and EGAT/DC will review CMS data, or paper/electronic TRs if required, to ensure that the guaranteed party submits TRs that are compliant with the legal agreement. The loan is assumed to be approved for guarantee coverage unless USAID contacts the guaranteed party to further clarify the proper enrollment of loans under coverage.

b) QUALIFYING LOAN SCHEDULE (QLS)

Most DCA activities require that the guaranteed party submit a Qualifying Loan Schedule (QLS) every six months.[1] Typically, these QLS reports correspond with guarantee periods from October 1 – March 31, and then April 1 through September 30. The QLS is a status report on all new loans placed under coverage, outstanding loans, and loans taken off coverage during the past six months. The summary level figure of each QLS that is most important from the utilization and USAID risk exposure perspective is the ending principal balance. This is relevant for all guarantee types – LPGs, loan or bond guarantees.

EGAT/DC ensures financial compliance of every QLS and it will report any non-compliance to the Mission for resolution or directly discuss these issues with the guaranteed party if previously agreed to by the Mission. QLS non-compliance may occur frequently if the guaranteed party does not fully understand reporting procedures or the legal agreement terms and conditions. In some cases, several email and/or telephone communications may be necessary to resolve non-compliance issues. Furthermore, a Mission or EGAT/DC site visit to or meeting with the guaranteed party may be required if the issues remain unresolved for more than 60 days. Once in compliance, the QLS serves as a platform to assess appropriate fees, judge the overall risk exposure, document the overall effectiveness of the program, and/or predict future claims.

For LPGs, QLS reports are submitted via the Internet-based Credit Management System (CMS). For other loan and bond guarantees, the guaranteed party will submit either electronic or paper

[1] The current standard for loan and bond guarantee reporting requirements are annual, corresponding with the amortization or repayment of the loan/bond.

reports, which typically include updated amortization or repayment schedules, as stipulated in the legal agreement. EGAT/DC will ensure those reports are properly entered into CMS for management reporting and utilization fee billing purposes. Missions, guaranteed parties and EGAT/DC will have simultaneous access to CMS to view data and to identify either compliant or non-compliant issues.

ii. FEES

Each DCA activity requires that the guaranteed party remit payment of two types of fees. As stated above, it is the responsibility of the Mission and the EGAT/DC Relationship Manager with support from the EGAT/DC PM team to ensure timely and accurate payment of fees.

a) Origination Fee – One time fee paid upfront. The guaranteed party typically has thirty (30) days from the signing of the legal guarantee agreement to pay this fee. A bill will not be submitted to the Mission or to the guaranteed party. Payment must be made as instructed in the legal agreement. See legal agreement for further information. In regards to the majority of PGs, the identified borrower(s) will pay the origination fee as stipulated in its commitment letter, which serves as the obligating document for this type of guarantee.

b) Utilization Fee – Annual fee that is paid every six months. The fee is based on an average outstanding principal balance during a semiannual period. This is typically calculated by averaging the ending principal balance of the current and previous QLS reports submitted by the guaranteed party. Once QLS report balances are confirmed as compliant by EGAT/DC in CMS, EGAT/DC will contact Riggs Bank to ensure a bill, a "Notice of Payment Due" (NPD) is sent to the guaranteed party with the total amount to be paid. The guaranteed party has thirty (30) days to pay the utilization fee after it receives the NPD. See legal agreement for further information. In regards to PGs, the commitment letter will not entail any utilization fees, which would be paid by the eventual guaranteed party that provides a loan to the borrower. Also, for bond guarantees, utilization fees are typically paid upfront in one lump sum at the time of bond disbursement. This fee is calculated as a net present value of future fees based on forecasted outstanding amounts during the bond guarantee term.

iii. ANNUAL DATA QUESTIONNAIRE (ADQ)

Through CMS, EGAT/DC will request that guaranteed parties complete an ADQ by June 30 every year. CMS will generate emails to the key contacts of all guaranteed parties on or around June 1 to request that they complete the ADQ before the end of the month. ADQ guidance in CMS will recommend that the guaranteed party spend no more than 30 minutes on the ADQ to ensure that this request is not overly burdensome

The purpose of this questionnaire is to obtain qualitative measures of the impact of DCA guarantees. Examples of the questions asked in the ADQ are:

- Collateral. Please describe if your institution has been able to lower its collateral requirements for Qualifying Borrowers because of the USAID guarantee.

- Loan Terms. Please describe if the USAID guarantee has resulted in your institution's ability to lengthen the repayment term (duration or tenor) for loans to Qualifying Borrowers?
- Other. What other impact has the USAID guarantee had on your ability to provide loans to Qualifying Borrowers? (For example, have you been able to make loans to these types of borrowers without the guarantee?)
- Example of a "success story" of the tangible benefits realized by one of the borrowers who productively utilized funds from a DCA guaranteed transaction.

iv. CLAIMS

The following list highlights how DCA claims are processed:

- Guaranteed party submits claim(s) for defaulted loan(s) to the Mission under a covered DCA facility. When the Mission receives the claim, it should forward the documentation to EGAT/DC Portfolio Management (PM) team along with any additional information relevant to this particular guarantee.
- EGAT/DC PM team reviews claim for compliance and prepares paperwork for claim approval. Any necessary correspondence with guaranteed party will be cleared by the respective the Mission Officer responsible for the DCA activity and the EGAT/DC Relationship Manager.
- EGAT/DC PM team arranges for clearances by Mission Officer, Relationship Manager prior to submitting to EGAT/DC Director for approval.
- Once approved, EGAT/DC PM team commits and obligates funds from the appropriate DCA Financing Account via Phoenix.[2]
- Upon obligation of the claim amount to be paid, the PM team then notifies FM/LM to instruct the Mission Controller to pay the claim.
- The Mission Controller then makes the claim payment, and obtains reimbursement through FM/LM via the Intra-governmental Payment and Collection (IPAC) system.
- EGAT/DC PM team follows up with email/phone contact to Mission Controller to confirm that claim payment has been made available to the guaranteed party.
- FM/LM notifies the EGAT/DC PM team when evidence of the Controller's transaction has been received. EGAT/DC PM team may then need to adjust the obligation amount due to exchange rate differences.

v. RECOVERIES

The EGAT/DC PM team (with potential field support from the Mission Officer responsible for the DCA activity in case of late responses) will send out annual letters by the first week of June of each year to all FIs that have received a claim payment from USAID. The letter, signed by the EGAT/DC Director or EGAT/DC PD Relationship Managers, will request that the FI submit a Schedule of Net Recoveries [see template below] by June 30 that identifies all claim payments made to a FI and requests updated data and certification on recoveries received by the FI on these defaulted loans.

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[2] When a DCA guarantee is initially established, the subsidy funds are transferred to the DCA Program Account. As the guarantee is utilized, the subsidy is disbursed proportionally to the DCA Financing Account, where fee payments from guarantee parties are also applied. The combination of subsidy and fees for guarantees obligated within the same fiscal year is the source of funds for claim payments to guaranteed parties.

SCHEDULE OF NET RECOVERIES

<Bank Name>
<Loan Portfolio Guarantee Number XXX>
< as of DATE >

Defaulted Loan/ Borrowers Name	Date of Qualifying loan	Date of Claim payment	Amount of Claim in USD	Recoveries Received as of <DATE>	Amount of Recoveries Collected by Bank	Date of Recoveries	Amount of Recoveries due to USAID	Expected Date Recoveries to be remitted to USAID

* To be completed by USAID
* To be completed by the financial institution

vi. MISSION SITE VISITS AND EGAT/DC BIENNIAL REVIEWS

Based on OMB Circular A-129, Mission Officer(s) responsible for a DCA activity are required to conduct and report on site visits to the guaranteed party, while the EGAT/DC PM team must conduct biennial reviews of the guarantee. Structures and guidelines for these visits and reviews are provided in the following two tables. Due to the similar nature of the reports described below, the EGAT/DC PM team will coordinate its biennial review with appropriate Mission staff.

Mission Site Visit	
Frequency:	Annually from date agreement is signed, particularly for guarantees with substantial loan volume, signs of deterioration in guaranteed loan(s), high default rates.
Responsible Entity:	Mission Officer responsible for the DCA activity or designee
Responsibilities:	Meet with partner Financial Institution management, establish status of project and determine compliance and performance issues.
Report Outline:	**Preparation:** Summary of telephone/email communication with PM team prior to site visit to understand unresolved monitoring and compliance issues and to review the most current utilization data. **Unresolved Issues:** Discussion of issues from Section I with FI and clarification of how issues are to be resolved. **Country Status:** Update on any country-wide issues that the FI believes is affecting its loan portfolio and/or DCA utilization – economic changes, exchange rate fluctuations, legal/political changes. **Bank Status:** Update on current situation with the financial institution being guaranteed – e.g., personnel, policy or strategy changes, bank performance, merger & acquisition activities. **Borrower Site-Visit:** If possible, request at least one visit to a borrower that received a DCA-guaranteed loan. Summary of visit should include details of: the loan amount, purpose of the loan, loan term, justification for using the DCA guarantee, how it was repaid, and the resulting benefits for the borrower. **USAID Support:** Discussion with FI if USAID can provide any further guidance or assistance in order to promote utilization of and proper reporting on the guarantee. **Conclusion:** Summary of follow-up action items
Delivery of report:	Mission Officer will send completed report via email to EGAT/DC PM team within 30 days of the anniversary of guarantee and EGAT/DC PM team will review the report and ensure that it is appropriately filed. In lieu of this report, the Mission Officer will send EGAT/DC an email to justify that the visit was not necessary. This email will also be filed accordingly.

EGAT/DC Biennial Review	
Minimal Frequency:	Biennially (once every two years) from date agreement is signed or coordinated with a country visit for other purposes
Responsible Entity:	EGAT/DC PM team (with support from Relationship Manager) or designee. If a Mission or its contractor prefers to be responsible for the biennial review, EGAT/DC PM team will review and provide feedback on the biennial report as outlined below.
Responsibilities:	To produce the following report at a minimum of once every two years for a DCA guarantee.
Report Outline: Note: Since the Biennial Report is similar to the Mission On-site Visit Report, EGAT/DC will coordinate its Biennial Review with the Mission to ensure that the FI is not overburdened with similar questions from two different USAID entities.	**Pre-Review Information Gathering:** Review of files to ensure files are current. Analyze recent reporting, fee and claim information to identify any issues that require follow-up with the FI. Data to be summarized and analyzed are: utilization ratios, fees billed and paid, claims net of recoveries as a percent of subsidy + fees, and reporting timeliness. **Unresolved Issues:** Discussion of issues from Section I with FI and clarification of how issues are to be resolved. Also, reminder to FI that have received claim payments of requirement to share recoveries. **Country Status:** Update on any country-wide issues that the FI believes is affecting its loan portfolio and/or DCA utilization – economic changes, exchange rate fluctuations, legal/political changes. **Bank Status:** Update on current situation with the financial institution being guaranteed – e.g., personnel, policy or strategy changes, bank performance, merger & acquisition activities. **Borrower Monitoring:** {if on-site} request to see credit files at the FI on a random selection of at least two borrowers. If possible, request at least one visit to a borrower that received a DCA-guaranteed loan. Summary of visit should include details of: the loan amount, purpose of the loan, the loan term, justification for using the DCA guarantee, how it was repaid, and the resulting benefits for the borrower. **EGAT/DC Support:** Discussion with FI and Mission if EGAT/DC can provide any further guidance or assistance in order to promote utilization of and proper reporting on the guarantee. Conclusion: Summary of follow-up action items
Delivery of report:	EGAT/DC PM team will review this report and ensure that it is appropriately filed. If this report is part of trip report conducted by an EGAT/DC staff member, it will be copied and placed in the appropriate DCA file.

vii. AUDITS

When a guaranteed party submits a claim for payment, the EGAT/DC PM team will monitor the level of claims against the following three criteria:

NOMINAL CHECK	Do cumulative paid and pending claims exceed the equivalent of US$ 25,000?
PORTFOLIO CHECK	Do cumulative paid and pending claims (converted to total loan values) exceed 10% of Cumulative Utilization?
SUBSIDY CHECK	Are cumulative paid and pending claims as a percent of "subsidy plus fees received" above 50%?

Although this three-tiered criteria checklist is primarily applicable to LPGs, which may receive a series of claim payment requests from the guaranteed party, the same guidelines should be utilized for other forms of DCA guarantees. Data related to these three criteria will be included in the summary page provided in the claim package developed by the EGAT/DC PM team. If at least two out of the three criteria result in positive answers, the EGAT/DC PM team will convene to discuss the possibility of an internal review of the guaranteed party's TRs and QLSs. The PM team will then coordinate next steps with the respective Relationship Manager from the EGAT/DC PD team. The Mission will be contacted as necessary, and additional documentation may be requested from the guaranteed party. The PM team, with guidance from the PD team and the Mission, may request a site visit to inspect the credit files of the guaranteed party.

In the event irregularities are found during the EGAT/DC PM team desk or on-site review, an audit should be conducted by an experienced, independent auditor. The EGAT/DC Risk Management (RM) team will coordinate the planning and review of this auditor's performance. The RM team will also conduct this audit with appropriate Mission guidance. Results of this audit will be disseminated between the PM team and the RM team as well as the Relationship Manager to decide on next steps with this DCA guarantee.

The guaranteed party will be required to repay any amounts deemed to have been paid based on disallowed transactions (e.g., unqualified borrowers). If the guaranteed party is judged to have committed fraud, provided erroneous information, or is perceived as unable to carry out the activities and responsibilities of the guarantee, the USAID Office of General Counsel may advise to terminate the agreement following consultations with the Mission and relevant EGAT/DC staff.

viii. BUDGET

- One (1) designated responsible Officer: 2% of time, **$1,038 per year** for each year during which loans may be placed under coverage. This is based on an annual salary of $51,903.
- One (1) FSN in the Financial Management Office: 2% of time, **$626 per year** for each year during which loans may be placed under coverage. This is based on an annual salary of $31,284.
- Year 1 of the Guarantee: AMIR Support: 7% of one person's time, **$2,894 per year**, for the first year during which loans may be placed under coverage, based on an annual salary of $41,340.
- Years 2-8 of the Guarantee: USAID TBD Project Support: 7% of one person's time, **$3,534 per year** on average for years 2 through 8 of the guarantee period during which loans may be placed under coverage. This calculation is based on an annual salary of $41,340 for Year 1, with an assumed annual increase of 5% per year.

Total Annual Cost for Mission: $8,092 (estimated average)

USAID/W EGAT/DC travel to COUNTRY: $3,450 per trip, 1 trip for every two years is $1,725 per year.
Estimated staff time costs for EGAT/DC to monitor this DCA guarantee are:

- EGAT/DC PD and PM team: 7 days per year, $3,500 annually for each year during which loans may be placed under coverage. This is based on an average salary of EGAT/DC personnel of $93,600 and a benefits package of $37,500.
- EGAT/DC PM monitoring contractors: $2,000 annually based on ongoing contract.

Total Annual Cost for EGAT/DC: $7,225

Clearance Page – Monitoring Plan

Mike Harvey, Deputy Director MA 05/04/05
Jim Barnhart, EO 5/2/05
Dave Barth, RLA 5/4/5
Brooke Isham, OPM 5/04/05
Andy Plitt, FMO 5/4/05

USAID/Jordan Congressional Notification

Jordan

The Development Challenge: Jordan plays a pivotal role in Middle East regional stability, combating terrorism, and serving as a model of reform. This role is being strengthened by His Majesty's challenge to the government to rapidly spread the benefits of economic reform and growth more broadly within the society. The Jordanian economy is highly vulnerable to regional and global political and economic shocks. The effects of September 11th, and instability in the region have negatively affected Jordan's ability to overcome the many development challenges it faces.

The Government of Jordan's (GOJ) program of far-reaching economic and social transformation continues for a second year. The program is a multi-faceted plan to accelerate the national social and economic transformation, and is based on an aggressive growth budget over the next three years. This plan coincides with many of the goals and objectives of the Administration's recently announced Middle East Partnership Initiative (MEPI), which include: economic reform and private sector development, increasing educational opportunities, strengthening civil society and the rule of law, and expanding the participation of women in economic and political life. USAID is well positioned to assist in this ambitious undertaking and to support Jordan as a key ally and development partner through its efforts to improve the quality of life of families and communities, water resources, and economic opportunities for Jordanians.

Poverty, ignorance and the lack of a political voice can all contribute to the growth of radical fundamentalists who could represent a threat to secular democratic nations. The GOJ has long advocated for programs targeting populations of young people at-risk as essential to creating a bulwark against terrorism. For this reason, USAID will ensure that life-skills training reaches disaffected youth. Health, education and well-being programs must be targeted towards women. The GOJ's steady drive to increase accountability and transparency in government must be encouraged. The growing role of NGOs and political parties in Jordanian public life is also vital to the health of the constitutional monarchy.

The population of Jordan is 5.2 million. This is over nine times the population in 1952 when U.S. economic assistance to Jordan began. While the total fertility rate has declined from 7.3 children per family in 1976 to 3.6 in 2002, the current natural rate of increase is 2.3 percent, with a total population growth rate of 2.8 percent. This will lead to a doubling of the population by about 2027. This population momentum poses severe demands on Jordan's limited water resources and is a key factor in the current high rates of unemployment and under-employment.

Jordan is one of the ten most water deprived countries on earth. Jordan needs to do whatever it can to effectively and efficiently use the water resources it has. Ninety percent of Jordan receives less than eight inches of rain annually. Of that, more than 90 percent is lost to evaporation. Drought conditions for the past four years have left in the reservoirs, which should contain 186 mcm of water, with only 71 mcm. Water is scarce in the entire region and will continue to be a critical issue for peace and economic development for decades to come.

In 2003, there will be 46,000 new entrants to the work force. With unemployment currently at 15 percent and rising since last year, and with "under-employment" adding perhaps another 10 percent, there are few employment opportunities for these new entrants without faster economic growth and labor market reforms. In addition, employment opportunities in the Persian Gulf region have not returned to their pre-Persian Gulf war levels, thereby placing a greater strain on the domestic employment market. With 60 percent of Jordan's population currently under age 25, the situation will only worsen.

The USAID Program: Through FY 2002, USAID's program focused on three strategic objectives: Improved Water Resources Management; Improved Access to and Quality of Reproductive and Primary Health Care; and Increased Economic Opportunities for Jordanians. In September, FY 2002, USAID approved the expansion and re-naming of the health SO to "Improved Quality of Life of Jordanian Families and Communities" and extended it to December 31, 2003, with a further extension to be proposed under a new Country Strategy that will run from FY 2004-FY 2009. This expanded SO addresses education, youth and civil society in addition to family health. The Mission's new strategy will be based on the goals and objectives of the MEPI. Subject to the analyses required for the new strategy and the Agency's approval, USAID/Jordan does not plan to add any new strategic objectives. Rather, the scope of the Quality of Life SO will be expanded to include education, civil society, good governance, rule of law, reaching out to women, especially in rural and impoverished areas, and other elements in society whose health and quality of life needs are currently not being adequately met. Additionally, USAID expects to add one component to the Economic Opportunities Strategic Objective to track rural development and poverty statistics. USAID/Jordan will work with the Department of State, Jordanian counterparts, and USAID/ Washington to develop the new strategy, and to put into place the appropriate management mechanisms.

The Department of State and USAID are conducting a joint review of the overall strategic direction of the USAID/Jordan portfolio and its specific programs in order to bring them in line with the goals and objectives of the Middle East Partnership Initiative. Those regional priorities include: economic reform and private sector development, increasing educational opportunity, strengthening civil society and the rule of law, and increasing the participation of women in economic and political life. This review may ultimately entail significant changes in the level of funding of the programs, projects, and activities described in this budget justification. After completion of the joint review USAID will notify the Congress through established procedures prior to obligating funds for any revised efforts.

Other Program Elements: There are three programs not managed by the Mission, but to which USAID/Jordan contributes: USAID/Jordan provides some field management and review for the Middle East Regional Cooperation (MERC) and the U.S.-Israel Cooperative Development Research (CDR) initiatives funded and managed by the Bureau for Economic Growth, Agriculture, and Trade (EGAT). The majority of the MERC and CDR projects in Jordan are in environmental protection, health, water and agriculture. The project life ranges from 3 to 5 years. Examples include the "Red Sea Marine Peace Park" (protecting the coral reefs), "Water Quality Along the Jordan River", "Migrating Birds Know No Boundaries", "Development of Regional Viral Indexing", "The Certification Program for Plant Propagation Materials in the Middle East", and "The Jordanian-Israeli Business Cooperation program". To date, approximately 45 projects have involved both Jordanian and Israeli partners, with a total funding level (all partners included) of almost $33.7 million. Two of the projects for the FY 2002 cycle have been approved so far, with the remaining projects still under review. Jordan's portion for both the approved projects and those under consideration is approximately $1 million. In addition, USAID helped the Embassy program the equivalent of $26 million in local currency proceeds from the sale of 100,000 tons of 416(b) wheat in FY 2001. The entire $26 million will be allocated to projects within the GOJ's Social and Economic Transformation Plan.

Other Donors: Jordan received $471 million in grant assistance during calendar year 2002. The United States Government provided 61 percent of the grant assistance, followed by the European Union at 22 percent, the Japanese Government at seven percent, the German Government at four percent, the Spanish Government at two percent and the Government of Saudi Arabia at two percent. The remaining two percent was provided by Canada, Norway, the World Bank, the Arab Fund and the Islamic Development Bank combined.

Jordan also received a total of $184 million in bilateral and multilateral loans. The bulk of the loans were from the World Bank, which provided 68 percent of the total, followed by the German Government at thirteen percent, the Spanish and Swiss Governments each at nine percent and Government of Norway at one percent. Donor coordination in Jordan is strong at the technical level. A recent Ministry of Planning donor coordination initiative will likely improve donor coordination at the macro level. The European Union's and Japan's main area of assistance focus is balance of payments support. The German Government has historically focused on the water sector while the World Bank recently re-directed its loan funding toward public sector reform and education.

Jordan
PROGRAM SUMMARY

(in thousands of dollars)

Accounts	FY 2001 Actual	FY 2002 Actual	FY 2003 Prior Request	FY 2004 Request
Economic Support Fund	149,670	150,000	250,000	250,000
Supplemental–ESF	0	100,000	0	0
Total Program Funds	**149,670**	**250,000**	**250,000**	**250,000**

STRATEGIC OBJECTIVE SUMMARY				
278-002 Water Resources Management				
ESF	43,845	45,000	47,000	50,000
278-003 Reproductive and Primary Health Care				
ESF	17,938	18,000	28,000	50,000
278-005 Broad-based Economic Growth				
ESF	87,887	187,000	175,000	150,000

278-005 includes $100 M of the FY 2002 Supplemental - ESF.

Data Sheet

USAID Mission:	Jordan
Program Title:	Water Resources Management
Pillar:	Economic Growth, Agriculture and Trade
Strategic Objective:	278-002
Status:	Continuing
Proposed FY 2003 Obligation:	$47,000,000 ESF
Prior Year Unobligated:	$0
Proposed FY 2004 Obligation:	$50,000,000 ESF
Year of Initial Obligation:	FY 1995
Estimated Completion Date:	FY 2004

Summary: USAID/Jordan's water resources management program has provided technical assistance, training, physical improvement and construction to the water sector for:
-- Policy Implementation;
-- Management Improvement, Water Demand Management and Private sector participation;
-- Water Loss Reduction and new Water Supplies;
-- Upgrading Existing Wastewater Treatment Systems;
-- Designed and Constructed New Wastewater Systems; and
-- Wastewater Reuse.

A wide range of Jordanians benefit from improvements in the water sector, increased citizen participation, and more transparent governance leading to better decision making in the water sector.

Inputs, Outputs, Activities:
FY 2003 Program:
Ain Ghazal Wastewater Treatment ($6,000,000 ESF). This investment will expand and remodel the existing treatment facility. This is vital to support operational volume requirements of the As-Samra BOT project that will serve over 2 million Amman and Zarqa residents. Contractor to be determined.

Zara-Ma'in Water Supply ($3,450,000 ESF). This is a Design/Build/Operate project of the desalination and conveyance facilities, which will augment the water resources of the city of Amman (population 1.5 million) by 40% and provide potable water to the tourist facilities along the Dead Sea. Proposals from four pre-qualified firms were received in August, and technical and financial reviews were completed. Harza is providing the engineering services.

Aqaba Water Supply ($22,500,000 ESF). As a result of the creation of the Aqaba Special Economic Zone, and the future anticipated growth in industrial, economic, and tourism activities, the present population of Aqaba (70,000) is expected to triple in the next two decades. The existing water supply system is operating at near maximum capacity and thus is inadequate to supply water needed for this growth. The feasibility study, environmental assessment and final detailed engineering design for this project, as well as the construction tender documents are complete. Montgomery Watson of California provided these services.

Mafraq Wastewater Treatment Plant ($8,000,000 ESF). This activity will upgrade the existing overloaded wastewater facilities to meet Jordanian standards and assure re-use of treated effluent benefiting approximately 60,000 inhabitants. CH2MHill is providing the engineering services.

Wastewater Reuse Implementation ($2,000,000 ESF). This project initiates the reuse of urban reclaimed water for industrial and landscaping in the Aqaba Special Economic Zone, and plans for reuse at the Mafraq Wastewater Treatment Facility. The project is being implemented by PA Consulting Group (Prime), CH2MHill, Water Reuse Association and Ecodit (sub).

Other institutional support activities ($5,050,000 ESF). These activities include the Watershed Management Project, support of the Groundwater Monitoring and Enforcement Unit, Project Management Unit Audits, Water Education and Public Information for Action Program, development of an Information Technology Masterplan for the water sector, expenses of program funded staff, Aqaba Environmental activities as well as emergency TA requirements. A key focus of these efforts is good governance and civic participation. Principal contractors and grantees include: ABT associates, AED, CDM and USGS.

FY 2004 Program:
Zara-Ma'in Water Supply ($14,550,000 ESF). This additional investment will fully fund the project.

Northern Governorates Water Networks ($22,000,000 ESF). This proposed project will construct needed water supply facilities for Mafraq, Jerash, Irbid and Ajloun governorates to integrate the current fragmented systems into an interconnected water supply network benefiting approximately 2 million inhabitants. Contractor is to be determined.

Small-scale wastewater treatment plants ($10,000,000 ESF). This project will construct two small-scale wastewater treatment facilities in two small rural communities and eventually reuse the treated (reclaimed) wastewater for local agricultural and industrial needs. Contractor is to be determined.

Institutional Support Project ($3,450,000 ESF). This technical support will further strengthen the institutions managing the water resources of Jordan by implementing the recommendations of the Institutional Development Action Plan developed by Deloitte Touch and the recommendations of the SO2 evaluation team. Contractor is to be determined.

Performance and Results: The Financial Accounting System for the Jordan Valley Authority (JVA) is in parallel operation with the old system until the end of 2002 when JVA will seek final approval of the new system. The strategic plan for the future operations of JVA was presented to the Board of Directors, members of the Irrigated Agriculture Committee and different Ministries and is being finalized together with supporting documents. An assessment of the progress in institutional reform for the water sector since 1996 was conducted and a 5-year Institutional Improvement Action Plan developed. The water education program continued its efforts to promote water conservation and demand management. One hundred and thirty additional people from the Ministry, WAJ, and JVA were trained on a variety of technical water issues under the Jordan Water Skills Enhancement program (JWSE), which improved their understanding and decision making on technologies to be used. A program guide for implementing Private Sector Participation in the Aqaba Governorate was developed and work is ongoing to expand the guide to a viable program road map for sustainable water and wastewater operations.

Work is on-going on the USAID portion of the multi-donor program to rehabilitate the water network of Amman correcting a 25 percent water loss. A Watershed Management Project to educate and involve the public is working with NGOs to protect rural water supplies through community-government partnerships in progress. A study on the upgrade and expansion of the Ain Ghazal Treatment Plant to support As-Samra was completed. Work on the Mafraq Wastewater Project resumed and technical assistance to train WAJ staff on the operation and maintenance of the Wadi Mousa wastewater treatment plant was provided.

US Financing in Thousands of Dollars

Jordan

278-002 Water Resources Management	ESF
Through September 30, 2001	
Obligations	351,343
Expenditures	98,997
Unliquidated	252,346
Fiscal Year 2002	
Obligations	44,998
Expenditures	16,652
Through September 30, 2002	
Obligations	396,341
Expenditures	115,649
Unliquidated	280,692
Prior Year Unobligated Funds	
Obligations	0
Planned Fiscal Year 2003 NOA	
Obligations	47,000
Total Planned Fiscal Year 2003	
Obligations	47,000
Proposed Fiscal Year 2004 NOA	
Obligations	50,000
Future Obligations	85,000
Est. Total Cost	578,341

Data Sheet

USAID Mission:	Jordan
Program Title:	Reproductive and Primary Health Care
Pillar:	Global Health
Strategic Objective:	278-003
Status:	Continuing
Proposed FY 2003 Obligation:	$28,000,000 ESF
Prior Year Unobligated:	$0
Proposed FY 2004 Obligation:	$50,000,000 ESF
Year of Initial Obligation:	FY 1996
Estimated Completion Date:	December 2002

Summary: The Population and Family Health program has provided technical assistance and physical improvements to Ministry of Health (MOH) clinics, including:
-- Improved quality of Primary Health Care/Reproductive Health (PHC/RH) services in all 380 MOH primary and comprehensive health care centers;
-- Improved knowledge of youth and married couples in reproductive health and healthy life styles;
-- Reformed civil health insurance system expanded to the most needy population;
-- Improved quality of services to the poor;
-- Surveillance systems for acute and chronic diseases to improve health services;
-- A cost recovery initiative at the Jordan Association for Family Planning & Protection (JAFPP), the biggest NGO providing FP services in Jordan;
-- Provision of contraceptives and helping the MOH achieve contraceptive security; and
-- Prevention of HIV/AIDS and other Sexually Transmitted Diseases (STDs).

Under the expanded SO new activities were begun to strengthen human resources:
-- A public-private partnership agreement with UNICEF to target at risk youth and life skills development while increasing youth involvement in community growth; and
-- USAID/Jordan and the Embassy's Public Affairs section are beginning to design a program targeting civic education, civil society and good governance.

Inputs, Outputs, Activities:
FY 2003 Program:
Primary Health Care Initiatives Project (PHCI) ($13,500,000 ESF). USAID will strengthen the PHC/RH services at MOH clinics. The project will continue the training of PHC service providers, including an additional 1,000 MOH service providers, thus achieving a minimum of 60 percent trained providers. Forty more MOH clinics will receive the full quality improvement package. The principal contractor is Abt Associates Inc.

Education and Civil Society ($7,000,000 ESF). Education programs, including early childhood and teenage development, will tap youth at risk to help them to acquire basic life skills and healthy life style. Principal grantees will include UNICEF, US Embassy/Egypt Public Affairs Office, and others.

Cost Recovery and Sustainability Activity at JAFPP ($3,000,000 ESF). The cost recovery initiative at JAFPP, the NGO providing 20 percent of all family planning services in Jordan, will improve the quality of reproductive and sexual health services through training of staff and implementing continuous quality improvement approaches. Principal grantee is John Snow Inc.

Partnerships for Health Reform Plus ($1,500,000 ESF). This effort will improve the health insurance civil program to increase efficiency and expand coverage. The hospital decentralization effort will expand to two more hospitals leading to improved financial systems and better quality of services. The principal contractor is Abt Associates Inc.

Field Support Programs ($2,500,000 ESF). A successful community outreach program that targeted 200,000 women of low socio-economic status, has led to a substantial increase in demand for modern family planning methods. Provision of contraceptive supplies to the public and NGO sectors will continue. Further analysis of Demographic Health Survey will be undertaken to to plan for ways to increase the contraceptive prevalence rate (CPR). Principal contractors: Deloitte Touche, Futures Group, and Family Health International.

Health Communication Project ($500,000 ESF). A new communication project will focus on family planning/reproductive health and healthy life styles. The target group will be the youth, the poor and Jordanian families. Principal contractor is to be determined.

All family planning agreements will incorporate clauses that implement the President's directive reinstating the Mexico City Policy.

FY 2004 Program:
New Activities as determined by the new strategy ($28,000,000 ESF). In response to MEPI, new activities will be initiated in education, civil society and rule of law. These initiatives will focus on: education to improve the lives of girls and women, e-learning, learning partnerships and scholarships. The civil society effort will assist and strengthen local NGOs, elections, media training and exchanges, and legal and regulatory reform.

Primary Health /Reproductive Health ($9,000,000 ESF). Under the new strategy, a follow on effort to further improve public and private PHC/RH services throughout Jordan will be developed.

Community Outreach Project ($1,000,000 ESF). Expansion of the current community outreach effort under Community Market Strategies (CMS) to reach women with low education, the poor and the residents of rural areas.

Primary Health Care Initiatives Project ($3,500,000 ESF). During this last year of the project, USAID will emphasize sustainability of quality improvements, training, management information systems, and completion of renovation and furnishing for the 200 targeted clinics.

Cost Recovery and Sustainability of JAFPP ($3,000,000 ESF). This project will continue to improve quality, achieve cost recovery, and improve systems that foster sustainability.

Partnerships for Health Reform Plus ($1,500,000 ESF). The civil health insurance system will test public and private sector contracting and expansion of the insurance pool to poor people, while the decentralized MOH hospitals will test the new quality improvement systems.

Health Communication Project ($1,500,000 ESF). This project will affect behavior change through targeting the poor and youth to achieve healthy life styles.

Field Support Activities ($2,500,000 ESF). Field support funds will be used to supply contraceptives, work on contraceptive security, fund a monitoring survey, and help prevent HIV/AIDS.

Performance and Results: Successes in primary and reproductive health include: a decrease in Total Fertility Rate, TFR, (0.7 births since 1997); an increase in birth spacing; a decrease in infant mortality, (from 29 to 26.5); and the training of more than 2,500 service providers. One hundred clinics have functioning quality improvement systems. The community outreach program covers 152,000 women of reproductive age and has resulted in 10,000 new users of modern contraceptive methods. The discontinuation rate of modern contraceptives during the first year of use has dropped from 49 percent to 42 percent and the birth interval of less than 24 months has dropped from 44 percent to 34 percent over the last five years. Infant mortality has been reduced from 29 to 26.5 per thousand.

US Financing in Thousands of Dollars

Jordan

278-003 Reproductive and Primary Health Care	**DA**	**ESF**
Through September 30, 2001		
Obligations	10,799	57,679
Expenditures	10,606	30,322
Unliquidated	193	27,357
Fiscal Year 2002		
Obligations	0	26,620
Expenditures	133	24,188
Through September 30, 2002		
Obligations	10,799	84,299
Expenditures	10,739	54,510
Unliquidated	60	29,789
Prior Year Unobligated Funds		
Obligations	0	0
Planned Fiscal Year 2003 NOA		
Obligations	0	28,000
Total Planned Fiscal Year 2003		
Obligations	0	28,000
Proposed Fiscal Year 2004 NOA		
Obligations	0	50,000
Future Obligations	0	50,000
Est. Total Cost	10,799	212,299

Data Sheet

USAID Mission:	Jordan
Program Title:	Broad-based Economic Growth
Pillar:	Economic Growth, Agriculture and Trade
Strategic Objective:	278-005
Status:	New
Proposed FY 2003 Obligation:	$175,000,000 ESF
Prior Year Unobligated:	$23,813,000 ESF
Proposed FY 2004 Obligation:	$150,000,000 ESF
Year of Initial Obligation:	FY 1997
Estimated Completion Date:	December 2002

Summary: ESF resources fund an Economic Opportunities Program that includes:
-- Improved economic policies that advance Jordan's reform agenda;
-- Increased levels of bilateral trade between Jordan and the U.S.;
-- Heightened numbers of women participating in the economy through small and microenterprises;
-- Expanded influence of Aqaba as a growth pole for Southern Jordan;
-- Emerging technologies to drive future economic growth;
-- Decreased numbers of Jordanians living in poverty;
-- Enhanced bilateral relations through commercial exchange; and
-- Established civil society bases through building the advocacy capacity of new and energized business associations.

A wide range of Jordanians have been reached by the activities funded through the Economic Opportunities Program.

Inputs, Outputs, Activities:
FY 2003 Program:
Cash Transfer Program ($144,500,000 ESF). This program will continue and expand policy-based balance of payments support. As in previous years, disbursement will be conditioned on economic reforms related to trade and investment, financial, fiscal, and legal reforms, and privatization. Local currency generated by cash transfers supports mutually programmed development priorities.

Jordan Achievement of Market-Friendly Initiatives and Results Program (AMIR 2.0) ($18,000,000 ESF). The AMIR 2.0 Program is an integrated set of activities dedicated to supporting private sector-led and broad-based growth through expanding competitiveness, productive trade and investment, and employment generation. AMIR 2.0 is client-centered and demand-driven. Principal Contractor: Chemonics International.

Aqaba Technical Assistance Support Project (ATASP) ($3,000,000 ESF). ATASP supports the creation and development of the Aqaba Special Economic Zone. This support is geared primarily toward the relevant new government authority, the Aqaba Special Economic Zone Authority (ASEZA). ATASP is designed to create a modern, efficient, transparent model of good governance reflecting the new legal and economic environment. Principal Contractor: IBM Services Group.

Executive Privatization Commission (EPC) ($4,925,000 ESF). This grant supports the Economic Reform and Development Program, by funding consultants, goods, and operating expenditures that support the GOJ's privatization efforts. The Program is implemented by the World Bank and executed by the GOJ through the Commission.

Jordan-United States Business Partnership (JUSBP) ($3,102,000 ESF). JUSBP concentrates directly on expanding Jordanian exports to the US via the FTA. The partnership seeks export "success stories" to illustrate the tangible benefits of the FTA. Principal Contractor: International Executive Services Corps (IESC).

Other Institutional and Technical Support Activities ($1,473,000 ESF). These activities include: Jordan National Competitiveness Team ($250,000), Emerging Markets Development Program ($250,000), the Economic Opportunities for Jordanians Youth Program (INJAZ) ($523,295), the Jordan Poverty Alleviation Program ($350,000), and expenses of program funded staff ($100,000). The major objectives of these activities are to increase citizen participation and expand the benefits of economic growth.

In addition, these broad-based economic growth activities are supported by the $15,000,000 FY 2002 ESF Supplemental.

FY 2004 Program:
Cash Transfer Program ($113,000,000 ESF). Disbursement will be conditioned on economic reforms related to trade and investment, financial, fiscal, and legal reforms, and privatization as in previous years. Local currency generated supports mutually programmed development priorities.

Jordan Achievement of Market-Friendly Initiatives and Results Program (AMIR 2.0) ($21,000,000 ESF). AMIR 2.0 will continue an integrated set of activities dedicated to supporting private sector-led and broad-based growth.

Aqaba Technical Assistance Support Project (ATASP) ($3,000,000 ESF). ATASP will continue to support the creation and development of the Aqaba Special Economic Zone through capacity building activities geared primarily toward the Aqaba Special Economic Zone Authority (ASEZA).

Executive Private Commission (EPC) ($6,000,000 ESF). This grant will continue to support the Economic Reform and Development Program. The grant funds consultants, goods, and operating expenditures supporting the GOJ's privatization program.

Jordan-United States Business Partnership (JUSBP) ($5,000,000 ESF). JUSBP will continue to focus on expanding Jordanian exports to the US via the Free Trade Agreement (FTA).

Other Institutional and Technical Support Activities ($2,000,000 ESF). Activities will include: Jordan National Competitiveness Team ($500,000), Emerging Markets Development Program ($500,000), the Jordan Poverty Alleviation Program ($600,000), and expenses of program funded staff ($400,000). The major objective of these activities is to increase citizen participation and expand the benefits of economic growth.

Performance and Results: During FY 2002, USAID funded the development of a private-public strategic partnership within Jordan to assist with the implementation of the US-Jordan Free Trade Agreement. A coalition of private sector business associations as well as representatives of the Government of Jordan was formed to help implement the various goals of this strategy, which include tripling two-way trade to over $1 billion by FY 2004 as compared to under $350 million in FY 2000. This coalition has helped focus Jordanians' attention on the US-Jordan FTA as an engine for Jordan's economic growth and prosperity.

USAID also funded the construction in Aqaba of the first privately-managed/publicly-owned industrial estate in Jordan. The Aqaba International Industrial Estate (AIIE) is open for business and is managed by the US firm Parson Brinkerhoff. It has Qualifying Industrial Zone (QIZ) status and is set to be a major factor in the development of Aqaba as a growth pole for southern Jordan.

USAID helped increase Jordan's exports through its Jordan - US Business Partnership (JUSBP) Project. JUSBP assistance allowed Jordanian enterprises to improve the quality of their products to become more compatible with U.S. and other developed markets. Products not traditionally exported from Jordan are now finding markets in the U.S. and elsewhere.

US Financing in Thousands of Dollars

Jordan

278-005 Broad-based Economic Growth	ESF
Through September 30, 2001	
Obligations	333,667
Expenditures	292,662
Unliquidated	41,005
Fiscal Year 2002*	
Obligations	163,187
Expenditures	91,371
Through September 30, 2002	
Obligations	496,854
Expenditures	384,033
Unliquidated	112,821
Prior Year Unobligated Funds**	
Obligations	23,813
Planned Fiscal Year 2003 NOA	
Obligations	175,000
Total Planned Fiscal Year 2003	
Obligations	198,813
Proposed Fiscal Year 2004 NOA	
Obligations	150,000
Future Obligations	350,000
Est. Total Cost	1,195,667

* Fiscal Year 2002 includes $85M of FY 2002 Supplemental - ESF.
** Prior Year Unobligated Funds includes $15M of the FY 2002 Supplemental - ESF.

TAB 8: CASE STUDY 2
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Question Sheet

DCA SEMINAR
Case Study 2 Questions

1. What is the development challenge being addressed through this project?

2. Who are the beneficiaries of this DCA guarantee activity?

3. Market Imperfections:

   a. What are the credit market imperfections preventing the beneficiaries from accessing credit?

   b. Does the design and structure selected for this DCA activity address these market imperfections?

4. What are the expected outcomes of utilizing a DCA guarantee rather than a grant?

5. How does this DCA activity fit in with the Mission's overall strategy?

6. How does the DCA guarantee facility complement the Mission's ongoing technical assistance and policy reform efforts?

7. Additionality:

   a. Does the DCA guarantee displace any private sources of financing?

   b. Would this type of credit be offered by any lender without DCA?

8. Does the selected lender(s) seem appropriate for the project? Why or why not?

9. Which party will pay the origination and utilization fees?

10. In which currency will the loans be made? Why will loans be made in that currency?

11. What information is needed to assess the financial viability of the activity?

Case 1
Bulgaria: Financing for Private Enterprises in Competitive Sectors

FINANCING FOR PRIVATE ENTERPRISES IN COMPETITIVE SECTORS IN BULGARIA / LOAN PORTFOLIO GUARANTEE
Development Credit Authority (DCA)

Country: **Bulgaria**
Sector: **Competitiveness**

The following case study represents excerpts from the Action Package submitted to and approved by the USAID Credit Review Board in June 2001.

1. Description and Purpose of Project

The proposed activity is a $20,000,000 loan portfolio guarantee to First Investment Bank (FIB), a privately-owned Bulgarian bank, to lend to private enterprises in identified competitive sectors with potential for export linkages.

2. Background and Rationale for Project

The DCA portfolio guarantee for enterprises in sectors with a high potential for international competitiveness strongly supports USAID/Bulgaria's SO 1.3 "Accelerated Growth of Private Enterprises in Bulgaria" and cross cutting SO 1.4 "A More Competitive and Market Responsive Private Financial Sector". The Mission has played a leadership role in developing the regional "Competitiveness Project", an Agency-wide initiative designed to assist USAID Missions in identifying business sectors within their respective host countries that have the greatest potential to compete internationally through exports and, hence, to contribute to economic growth. USAID/Bulgaria, in collaboration with the Government of Bulgaria and local business leaders, has identified the following sectors for targeted assistance: tourism, high technology, light manufacturing, e.g., garment production and food processing, and potentially agriculture.

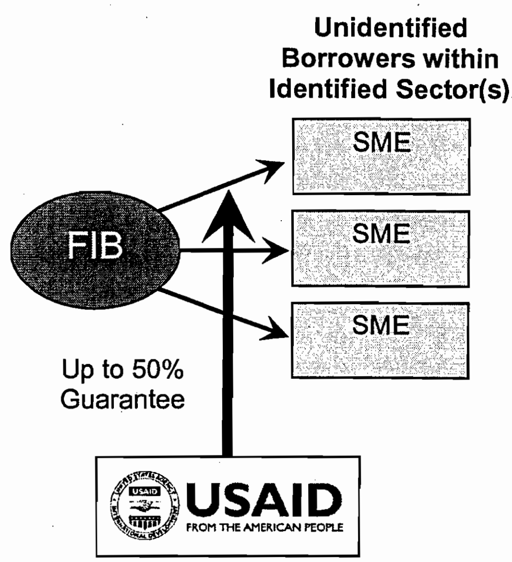
The banking sector has gradually increased commercial and consumer lending since its 1996-97 crisis, but it remains far from developed. Limited bank lending to the SME sector reflects both supply and demand-side market imperfections. Although banks are highly liquid, loans comprise a small percent of assets because of extreme risk aversion resulting from the 1996 banking crisis, a dearth of sophisticated credit skills, legal and regulatory obstacles, and poor disclosure and lack of transparency by borrowers. The proposed DCA activity would facilitate credit for SMEs by overcoming legal, regulatory and other hurdles to lending, and by encouraging competition among banks in the nascent market for SME credit. Additionally, the level of collateral required by the bank is high compared to international standards. The guarantee facility would help reduce the level of the collateral required of the SME while simultaneously reducing risk exposure for the lender and encouraging them to lend to a new market segment. The guarantee facility would also enable the bank to extend longer-term loans to meet the needs of SMEs.

3. Collaboration with Other Parties and Existing and Planned Technical Assistance

USAID's program to improve the competitiveness of the Bulgarian economy is being implemented by Management Systems International and Firm Level Assistance Group (FLAG). FLAG provides a wide range of technical assistance services, such as trade show participation for traditional markets recovery and assistance to ensure exposure to foreign markets to secure the implementation of cluster objectives. FLAG focuses on critical issues such as new technologies, export market development, establishment of market cooperatives, incorporation of joint-venture companies, introduction of the international standard for quality control, branding, packaging, marketing, and promotion.

FLAG recently provided technical assistance to a Bulgarian commercial bank complementing an EBRD loan agreement for DEM 10 million for lending against warehouse receipts. FLAG provided training to credit experts, inspectors, branch employees, managers, and legal advisors in nine bank branches on the specifics of agricultural finance, legal framework of grain storage, lending against warehouse receipts, and enforcement of collateral.

4. Financial Intermediary



DCA will guarantee a portfolio of loans made through the First Investment Bank (FIB), which is one of the ten largest banks in Bulgaria. Principal shareholders are the European Bank for Reconstruction and Development (20%), the Vienna-based European Privatization and Investment Corporation (39%) and First Financial Brokerage House (14%), a local institution.

FIB is considered to be one of the fastest growing and most dynamic banks in Bulgaria, and the proposed DCA activity would mobilize FIB's branch network and sector interests. Its management team is competent, experienced and committed to providing quality service to its clients. FIB has expanded rapidly over the past few years, mainly due to the introduction of numerous innovative financial products, to include credit and debit cards, direct deposit of salaries and on-line bill paying. Asset quality has been maintained, notwithstanding the pace of growth. Past due loans currently account for less than 4% of total loans and are well covered by provisions. Senior management is considered aggressive in its marketing approach while at the same time cautious in its analysis, thus controlling credit quality. The credit practices of FIB comply with all requirements regarding the ownership of the borrowers and their creditworthiness. In addition, the bank's portfolio supports highly competitive businesses in all the sectors which USAID has targeted, including tourism, information technology, light manufacturing, and agro-processing, but focused to date on larger and better known businesses to date.

5. Borrower

The Government of Bulgaria and local business leaders have identified potential borrowers from the following sectors for targeted assistance: tourism, high technology, light manufacturing, e.g., garment production and food processing, and potentially agriculture.

i. Light Manufacturing/Garments - Light manufacturing has the second largest share of exports, particularly clothing/footwear, medicines/cosmetics, and furniture/household appliances. Capability for full package work, a value-adding pre-production service strategy, is developing all over Bulgaria. Bulgarian firms are positioned to exploit high-end apparel markets in Europe based on traditions of quality, experience in the European market, and a skilled workforce.

ii. Information Technology / Telecommunications - The Bulgarian information technology industry has several competitive advantages, including low wages, relatively high educational achievement, skilled workers and strong science and technology duration. Given the human capital available, Bulgarian companies with good strategies and products should thrive in international markets.

iii. Agricultural Products - Food processing, beverages and tobacco are among the strongest sectors in the Bulgarian economy. Favorable climate and established traditions stimulate its development. Food production accounts for 19.1% of the total industrial production with an export share of 16.7%.

USAID Warehouse Receipts Program: Expansion of commercial farmers' access to longer-term, less expensive bank credit, which will promote the use of crop warehousing to reduce and mitigate price volatility, and relieve American agriculture suppliers from providing credit for roughly 90% of sales. The DCA activity will strengthen the agricultural Warehouse Receipts program – a critical mechanism for smoothing agricultural commodity prices and improving farm incomes that permits farmers to borrow against receipts for stored grain and to sell at propitious times.

6. Intended Beneficiaries

The beneficiaries will be creditworthy private enterprises in sectors with potential for high competitiveness in Bulgarian and international markets, such as tourism, information technology, light manufacturing, transportation, commercial agriculture, and other export oriented industries.

7. Illustrative Terms of the DCA Activity

Guaranteed Party	First Investment Bank
Type of Guarantee	Loan Portfolio Guarantee
Amount of Maximum Portfolio ($)	US$20,000,000
Maximum Cum. Disbursements ($)	NA
Amount of Guarantee Ceiling ($)	US$10,000,000
Level of Guarantee Coverage (%)	50%
Term of Guarantee (in Years)	7 years
Fees: Origination Utilization	Origination: .50% Utilization: .75%
Currency (Local or US$)	US$, Euro, and Leva

8. Market Imperfections

The DCA facility seeks to overcome a major obstacle to private enterprise growth in Bulgaria -- the lack of financing for the SMEs, particularly for medium and long terms. Since the 1996-97 crisis, banks in Bulgaria have been extremely reticent to lend to non-prime borrowers. Total bank lending to private enterprises and individuals comprises less than 37% of total bank lending, and only 27% of total bank assets. Both lending ratios are low by transition economy and international standards, and banks must begin to provide the financial intermediation to non-wholesale market segments that is necessary to strengthen the business climate and fuel economic growth. Domestic lending is an important source of investment and working capital, especially in Bulgaria where access to international sources of funds are virtually non-existent, and equity and debt finance through the securities markets remains severely limited.

Although Bulgarian banks are highly liquid, they have historically been reluctant to lend to SMEs because of the general uncertainty of the business environment, the short track record and unsatisfactory investment quality of the projects put forth by most of the private companies, and the lack of enforcement of the established credit register. Additionally, the enforcement of creditors' rights is slow and the commercial banks face problems in collecting on non-performing loans, there is a deficiency of long-term financial resources within the commercial banks. Regulatory restrictions on the size of loans and provisioning requirements are also a constraint to bank lending to SMEs.

9. Additionality

The DCA loan guarantee will not supersede private sources of financing. The DCA portfolio guarantee will play a pivotal role in mobilizing longer-term capital not otherwise available at commercial terms in local capital markets to finance commercially viable projects in competitive sectors. USAID may therefore be considered a lender of last resort.

Case 2
Paraguay: Establishment of a Municipal Finance Facility

A MUNICIPAL FINANCE FACILITY IN PAPAGUAY
LOAN PORFOLIO GUARANTEE
Development Credit Authority (DCA)

Country: **Paraguay**
Sector: **Local Governance**

The following case study represents excerpts from the Action Package submitted to and approved by the USAID Credit Review Board in August 2001.

1. Description and Purpose of Project

The purpose of this DCA activity is to establish a $3,000,000 loan portfolio guarantee with a Paraguayan commercial bank to stimulate the provision of credit for the establishment and improvement of local urban service infrastructure and improved service delivery by municipalities and private-sector concessionaires (contractors).

This DCA loan portfolio guarantee will increase the capacity of local governments to generate revenue, develop infrastructure, provide needed services, improve the standard of living for their citizens while simultaneously fostering environmentally and financially sustainable development. The DCA activity will be carried out to fulfill Strategic Objective (SO) 1 – "Key Democratic Governance Practices Instituted" by contributing towards Intermediate Result (IR) 1.1 – "More effective local governments developed."

2. Background and Rationale for Project

Currently, local governments and public concessionaires are only able to develop short-term projects using a combination of general fund revenues and targeted community contributions. This situation effectively limits their capacity to respond to local needs. Consequently, Paraguay lags behind most other Latin American nations in basic services such as potable water, sanitation and solid waste disposal. Paraguay is also one of the most centralized states in the world, with sub-national government revenues equivalent to less than 5% of the national budget.

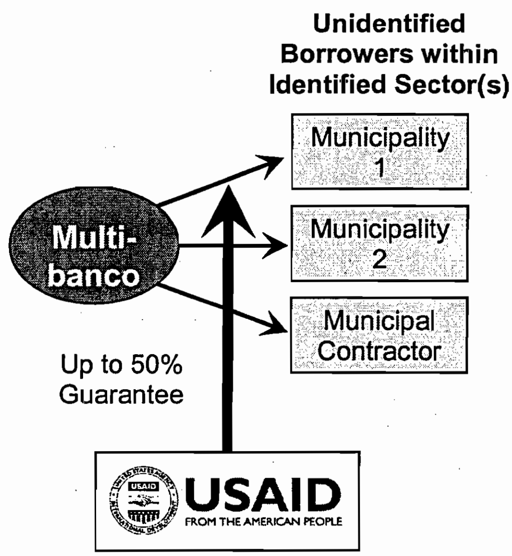
In Paraguay, medium- and long-term credit markets are almost entirely nonexistent, although some limited sectors have benefited from short- and medium-term public sector credit from the Paraguayan government agency, the "Fondo de Desarrollo Industrial" (Industrial Development Fund), as a second tier lender extending ten year loans disbursed through commercial banks. Other lenders also offer car loans with a tenor of 4 years and mortgages with a 10-year tenor. Nevertheless, all such operations are of a marginal nature in the Paraguayan financial market.

Lending for municipalities has been even more scarce or altogether absent. Very few precedents exist, and they are exclusively concentrated in large cities (Asunción, Encarnación, Ciudad del Este and Fernando de la Mora). There are no known instances of lending under any terms to the smaller municipalities. Much of the problem is due to a mistaken perception in the banking system that there are legal problems with this type of loan and that municipalities lack debt servicing capacity. This excessive perception of risk, coupled with a law that prevents municipalities from pledging real property as collateral, effectively precludes them from the highly risk-averse and conservative banking sector in Paraguay.

3. Collaboration with Other parties and Existing or Planned Technical Assistance

The borrowers receive technical assistance through USAID/Paraguay's Local Government program, which works with municipal and departmental governments and community groups to promote popular participation and greater democratic institutionalization. The program is implemented by Alter Vida, a highly competent local NGO. Alter Vida will be assisting with the development and generation of eligible projects under the auspices of a cooperative agreement with USAID/Paraguay.

4. Financial Intermediary



Multibanco, SA will act extend credit to various municipalities or municipal concessionaires in Paraguay under a loan portfolio guarantee. Multibanco is the 11th in ranking of among the 22 banks in Paraguay (including foreign banks) and is the largest of the three locally-owned banks per the 2001 Central Bank Annual Report. The bank has 22 branches with 153 employees, including competent managers. Internal policies are in place and are adequate, as are the accuracy, timeliness and effectiveness of management and information systems. Multibanco has demonstrated its ability to monitor and control market exposure. A demonstrated willingness to serve the legitimate needs of the community is evident. The bank has previously extended credit to two municipalities and two concessionaires. All four borrowers have covered debt service in a timely manner with no arrears occurring in the last three years.

The bulk of project financing under this activity would be in Paraguayan Guaraníes, however, since 70% of all bank deposits are in US Dollars, a corresponding percentage of bank lending activity is also dollar-denominated. Bearing in mind the heavily dollarized local economy, concessionaires or other borrowers would have access to dollar-denominated financing at the discretion of the bank provided that they have access to reliable US Dollar revenues.

5. Borrower

Potential borrowers include departmental and/or municipal governments, private concessionaires operating under license from municipal governments or private industries with special infrastructure needs (such as slaughterhouses). Concessionaires are contractors that carry out infrastructure projects for municipalities. The following are some of the first projects that are contemplated to be financed under the facility:

1) Municipality of Itaugua, solid waste landfill project: total cost of construction and startup is 586.7 million Guaranis, equal to $115,073. The project will serve some 3,660 beneficiaries, including residences, companies, and institutional buildings. The annual use charges will be increased 10% per year, to cover inflation. Maintenance and operating costs are also expected to increase at 10% per year.

2) Municipality of Itaugua, modernization of rural cadastre project, which would cover 1,000 properties covering 259,000 hectares. The cost of the project is 304 million Guaranis, equal to $59,625. With the tax base more accurately recorded, the increase from revenues in rural excise taxes is expected to be 100 million guaranis annually. No increased administrative expenses are expected, as this project will increase the administrative efficiency of municipal staff.

3) Municipality of Limpio, wastewater treatment system, which initially would have 219 connections and be expanded over a ten year period to 496. Total estimated project cost is 495.4 million Guaranis, equal to $97,166. Both service fee income and maintenance costs are expected to increase by 10% annually.

4) Municipality of Luque, potable water system, to create 500 connections, at a cost of 312 million Guaranis, equal to $61,194. Both service fee income and maintenance costs are expected to increase by 10% annually.

6. Intended Beneficiaries

The municipalities will benefit through enhanced revenue collections and increased ability to provide municipal services to local residents. Municipalities will also be empowered through practical application of their new mandate as authority devolves from the central government, and municipalities will gain critical financial management experience. The improvement of services should contribute substantially to quality of life gains for local residents.

7. Illustrative Terms of the DCA Activity

Guaranteed Party	Multibanco, S.A.
Type of Guarantee	Loan Portfolio Guarantee
Amount of Maximum Portfolio ($)	US$3,000,000
Maximum Cum. Disbursements ($)	NA
Amount of Guarantee Ceiling ($)	US$1,500,000
Level of Guarantee Coverage (%)	50%
Term of Guarantee (in Years)	10 years
Fees: Origination Utilization	Origination: .5% Utilization: .5%
Currency (Local or US$)	Paraguayan Guaranies, USD

8. Market Imperfections

In Paraguay, medium- and long-term credit markets are almost entirely nonexistent with the exception of very limited mortgage and auto lending. Private commercial banks focus on making short-term loans to private companies and individuals, preferably in US dollars.

Lending for municipalities has been even more scarce or altogether absent. There are a few examples of bank lending to large cities, but no examples of lending at any terms to smaller municipalities. Banks mistakenly believe that there are legal problems with this type of loan. Additionally, as the central government has just recently devolved authority through a broad decentralization program, local governments are inexperienced in financial management and banks are concerned about the municipalities' debt servicing capacity. This excessive perception of risk, coupled with a law that prevents municipalities from pledging real property as collateral, effectively precludes them from the highly risk-averse and very conservative banking sector in Paraguay.

9. Additionality

The existing unavailability of medium- and long-term credit for small Paraguayan local governments will continue unless new efforts are made to generate financial tools targeted specifically to them. Without the DCA guarantee no effort would be made by private banks to explore and structure financial facilities to creditworthy local governments, and interest in this sector will most likely fail to materialize altogether. DCA's use on this project will constitute a valuable demonstration to correct misperceptions in the financial sector of risk, and increase the willingness and capacity to engage in project finance lending especially in local currency.

Case 3
Latin America Regional: Green Loan Fund

USAID/LAC BUREAU GREEN LOAN FUND
LOAN PORTFOLIO GUARANTEE
Development Credit Authority (DCA)

Country: **Latin America/Caribbean**
Sector: **ENRM / Agriculture**

The following case study represents excerpts from the DCA Risk Assessment submitted to USAID by Chemonics as part of DCA activity preparation.

1. Description and Purpose of Project

DCA is being proposed by the USAID LAC Region to cover up to 50% of principal for a $4,000,000 million portfolio of "green loans" over a 4-year term to be made by a non-profit enterprise EcoLogic Ventures (EEV) located in Cambridge, Massachusetts. EEV operates as a "green" or ecologically enhancing loan fund, extending credit to eco-enterprises located in environmentally sensitive areas of Latin America. EEV is developing a portfolio of loans from $10,000 to $200,000 targeted to small-scale producer organizations in Mexico, Central and South America.

2. Background and Rationale for Project

EEV's objective supports goals shared by USAID/LAC Bureau and other ecologically aware organizations. These common goals – biodiversity, conservation and grassroots economic development – are achieved through support of production of exportable high-quality agricultural related products. EEV prefers to supply businesses that are 1) located in and around protected terrestrial, coastal, and marine habitats; and 2) are unable to secure financing from conventional commercial sources due to their small size, lack of collateral or operating history, and the financial risks associated with the locale. EEV invests in fisheries, coffee, certified timber, and ecotourism.

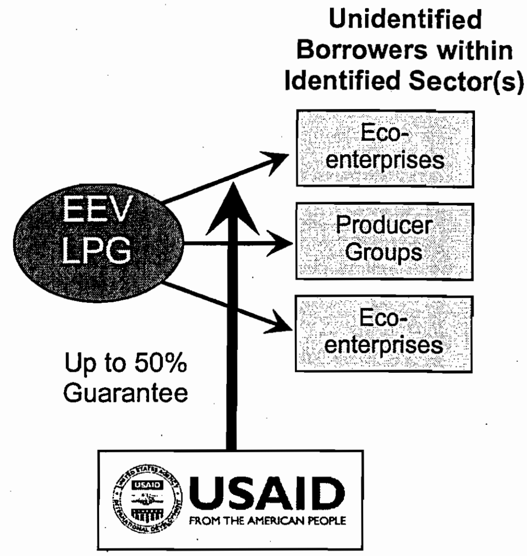
The DCA guarantee will facilitate the operations of EEV and allow it to multiply its operations through the 50 percent guarantee of the segment of the EEV loan portfolio covered by the guarantee. Such a guarantee will allow the lender to provide more financing to qualified producer/cooperative groups than would otherwise be possible.

3. Collaboration with Other parties and Existing or Planned Technical Assistance

In the eco-enterprise value chain in which potential borrowers operate, often the "green" importer or buyer may provide consulting expertise to the producer as an ancillary benefit to assist them in overcoming problems related to production, processing, and shipping primary products. EEV also provides financial management training to the eco-enterprises, thereby increasing their creditworthiness.

4. Financial Intermediary

DCA will guarantee a portfolio of loans made by EEV. EEV is a US non-profit founded in the fall of 1999 and serves as a 509(a)(3) supporting organization of its parent, the EcoLogic Development Fund (EcoLogic), a 501(c)(3) non-profit corporation.



Founded in 1993, EcoLogic provides technical and financial assistance to non-profit organizations in Latin America that are working to conserve biodiversity. EcoLogic established the EEV green loan fund which is now in a growth stage with gross loans of $1,721,796 as of year end 2002.

EEV's targeted loan range meets the typical needs of rural producer organizations for short-term harvest financing and general working capital, as well as longer-term loans to purchase farm equipment, expand productive infrastructure, adopt appropriate technologies, or restructure onerous debts compromising their commercial viability. These capital investments help village-based businesses add value to their production and sell goods further along the market supply chain to capture more profit and benefits for the community.

Before extending credit, EEV determines that rural producer groups have established market linkages with green trading companies that can offer security enhancements to the fund. These include: creating local product demand; enhancing bankable cash flows through long-term and higher-than-market pricing arrangements; and increasing access to technical assistance boosting borrowers' competitiveness and productivity. These companies, in turn, help bring new lending opportunities to EEV's attention.

The key to EEV's strategy is that it usually targets community-based organization in these target geographic areas in need of funding. They look for organizations with existing sales relationships with major world "green" trading companies specializing in buying certified commodity products. Examples of such products are shade managed and organically grown coffee or, in the case of timber or fisheries, products that have been awarded recognized ecological certifications. This is based on the premise that as a result of the relationship, the growers/cooperatives would have long-term dollar denominated contracts at a fixed price higher than world commodity prices due to perceived quality. The objective of obtaining these higher prices is to assure the return would be sufficient to support the grower's production cycle and help the producer adequately support themselves and their families with a living wage.

EEV negotiates security enhancements with trading companies for these certified products, thereby minimizing the risk of default by any one borrower. The growers/cooperatives, for example, have fixed term dollar contracts to deliver quality coffee in the fair trade category at

$1.26 per pound or, more likely for the U.S. buyers, coffee which is certified organic at $1.41 per pound, as compared to the current 60 cents a pound price in the world market for non-specialized coffees, and a production cost of 75 cents a pound.

The green importer purchasing at these attractive prices however very often will not advance funds on a pre-export basis; EEV will do so through a short-term loan repaid from the proceeds of the export sale to the green importer. This model excludes the in-country middlemen buying coffee at below producer cost which is detrimental to farmers' livelihoods. Producers' lack of collateral is remedied by lending against fixed dollar denominated contracts by reputable world-class green dealers primarily in the United States who agree to pay EEV through the proceeds of the export. EEV conducts very careful due diligence on the producers and makes sure their contracts with international buyers are in order. This "hands on" monitoring also extends to tripartite loan contracts with buyer and producer.

5. Borrower

Borrowers will be small scale enterprises engaged in environmentally sustainable activities, including agricultural producer / cooperative groups, certified timber operators, fisheries, ecotourism and others.

Potential borrowers in eco-tourism and fishing may benefit from government-protected mandates with dependable dollar inflows, thereby improving their creditworthiness. In Mexico, for marine projects, exclusive rights are granted to the fishermen who also serve as guides for first world "whale watchers." Exclusive rights are also granted by the Mexican government to lobster fishermen in Baja California and Yucatan Peninsula. These exclusivity arrangements, some dating from the 1930s, help assure dollar flows to repay loans.

The EEV lending model helps the cooperative or seller (parties to the EEV loan contract) understand the legal and financial ramifications of timely delivery to the other parties (importer, lender), transparent financial statements, and other proof of eligibility such as quality standards certifications. These transactions will also help the producers evolve into more sophisticated businesses and improve their competitiveness.

6. Intended Beneficiaries

The borrower group described above, in addition to the local environment and population living in that environment will benefit from the success of this activity.

7. Illustrative Terms of the DCA Activity

Guaranteed Party	EcoLogic Enterprise Ventures (EEV)
Type of Guarantee	Loan Portfolio Guarantee (LPG)
Amount of Maximum Portfolio ($)	$4,000,000
Maximum Cum. Disbursements ($)	$4,000,000
Amount of Guarantee Ceiling ($)	$2,000,000
Level of Guarantee Coverage (%)	50%
Term of Guarantee (in Years)	4
Fees: Origination Utilization	Origination: 0.5% Utilization: N/A
Currency (Local or US$)	US Dollars

8. Market Imperfections

Most Latin American countries lack the financial and technical infrastructure to support eco-enterprises in the low income producer / cooperative market segment serviced by EEV. Private financing for the missing middle between micro and larger enterprises, is underserved. Both working capital and longer term financing is needed for all sectors, particularly an area such as certified timber which takes a number of years to pay off allowing a borrower to repay a loan.

Producer groups face a number of barriers in accessing credit from local lenders. These include lender risk aversion due to vulnerability to world commodity price cycles, general lender unfamiliarity with eco-enterprises and their cash flows, and general legal and regulatory challenges such as a lack of credit reference information on the producers on which lenders can base a credit decision.

9. Additionality

As presented above, producers and cooperatives are currently unable to access appropriate financing to grow their enterprises. Therefore the DCA loan portfolio guarantee will not displace short-term or term debt financing for eco-friendly producer groups in Latin America that could otherwise be fulfilled from the private sector. EEV may finance projects that have other lenders but only focusing on the project component which is its specialty - crop and pre-export financing for the growers and their cooperatives – for which the DCA guarantee would be used.

Case 4
Uganada: Increased Access to Capital for MEIs and MSMEs

FINANCE FOR THE MISSING MIDDLE IN UGANDA
LOAN PORTFOLIO GUARANTEE
Development Credit Authority (DCA)

Country: **Uganda**
Sector: **Micro and SME Development / Agriculture**

The following case study represents excerpts from the Action Package submitted to and approved by the USAID Credit Review Board in August 2001.

1. Description and Purpose of Project

USAID/Uganda proposes the use of the Development Credit Authority in order to introduce a $30,000,000 multi-bank loan portfolio guarantee into Uganda to provide desperately needed access to finance for microfinance institutions (MFIs) and micro-, small-, and medium-sized businesses (MSMEs).

2. Background and Rationale for Project

The proposed DCA Loan Guarantee Program (LPG) strongly supports the USAID/Uganda Strategic Objective 7 "Expanded Sustainable Economic Opportunities for Rural Sector Growth". SO7 is supported by Intermediate Results (IRs) that identify increased food security for vulnerable populations, increased productivity of agricultural commodity and natural resource systems, increased competitiveness of enterprises in selected sectors, and improved enabling environment for broad-based growth, and the DCA program will contribute to all four IRs. SO7 places priority on assisting the GOU to reduce rural-based poverty by expanding economic opportunities and incomes. This is expected to increase incomes for farm enterprises, community and producer organizations, micro-, small-, and medium-enterprises (MSMEs), and industry-scale export sectors, and an improved enabling environment.

The development of MSMEs is critical to the economic growth of Uganda, as roughly 800,000 microenterprises and small businesses account for nearly 90 percent of non-farm employment. A growing formal small and medium enterprise sector (10 or more employees) plays an increasing role in providing inputs, market outlets, and support services. Small business is particularly active in the emerging service sector, which has grown from 36.6 percent to 40.2 percent of GDP in the past five years and encompasses activities including ecotourism, the cell phone industry, and information technology. SMEs are also emerging through linkages to larger export sectors such as coffee and cut flowers. These enterprises, the so-called "missing middle", all need access to finance and support services to build their competitiveness.

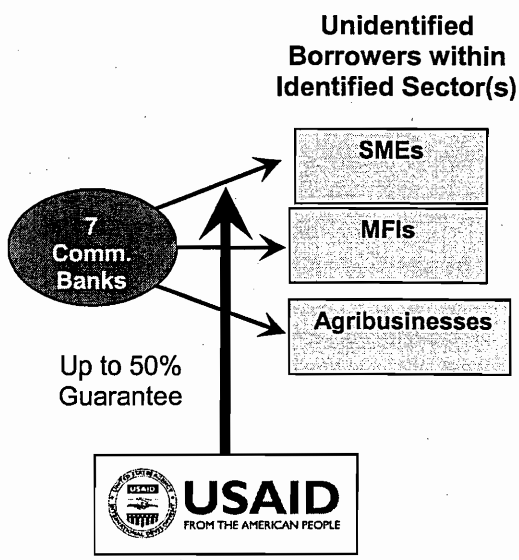
Lack of commercial finance continues to be an obstacle to the development of competitive private enterprises in Uganda and, hence, to overall economic and social development in the country. Thus, the proposed DCA activity is a critical component of the Mission's comprehensive enterprise development program, serving to stimulate domestic lending and encourage greater financial intermediation.

3. Collaboration with Other parties and Existing or Planned Technical Assistance

Although the proposed DCA activity will contribute to the work of many of the Mission's implementing partners, the Support for Private Enterprise Expansion and Development (SPEED) activity will provide implementation and monitoring support for the DCA activity in collaboration with USAID/Uganda. SPEED is a three-year activity managed by Chemonics International Inc. under SEGIR Financial Services Task Order #805 supporting the economic growth of Uganda through the development and expansion of sustainable business opportunities in the micro, small, and medium enterprise (MSME) sectors. SPEED works with SMEs and BDS providers, as well as microfinance institutions (MFIs), and commercial banks to strengthen their capacities so MFIs expand and move up-market while commercial banks move down to meet the financial needs of the "missing middle" and SPEED also works on policy issues addressing constraints to MSME development.

In January 2001, USAID/Uganda launched a pilot competitiveness activity called Competitive Private Enterprise and Trade Expansion (COMPETE) which is working at the highest levels with a special Presidential Task Force on Export Competitiveness chaired by the Ministry of Finance, Planning and Economic Development. Additionally, the IDEA project, which began in 1995 and runs to December 2004, has developed projects for small and large businesses in exports of non-traditional exports. Examples of such exports include cut-flowers, spices and vanilla. Through its Medium-Term Competitive Strategy for the Private Sector (MTCS), the Government of Uganda (GOU) has placed high priority on improving the business environment for MSMEs and USAID/Uganda is committed to supporting the implementation of the MTCS.

4. Financial Intermediary



DCA will guarantee a portfolio of loans made through seven private commercial banks in Uganda, with each bank maintaining a different maximum portfolio limit. Some of the banks will be allowed to lend in US Dollars in addition to Uganda Shillings. Five of the seven banks have international ratings, listed below. CAMELS analyses will be required for the two remaining banks.

Citibank Uganda Citibank Uganda is a 100%-owned subsidiary of Citibank N.A. of the United States. Fitch IBCA lists Citibank's long-term credit rating as AA.

Standard Chartered Bank Uganda, Ltd. Standard Chartered Bank Uganda Ltd. is a 100%-owned subsidiary of Standard Chartered Bank based in London, UK. Fitch IBCA long-term credit rating of A+.

Stanbic Bank Uganda Ltd.
A 100%-owned subsidiary of Standard Bank based in Johannesburg, South Africa. Capital Intelligence long-term foreign currency rating as BBB-.

Barclays Bank of Uganda Ltd. A 100%-owned subsidiary of Barclays Bank based in London, UK. Fitch IBCA long-term credit rating of AA+.

Allied Bank International Ltd. A majority-owned subsidiary of Fortis Bank of the Fortis Group based in Brussels, Belgium. Standard & Poor's long-term foreign currency rating of AA-.

Lender	Portfolio Limit (US$ equivalent)	USD Lending
Citibank	Up to $2 million	•
Standard Chartered	Up to $4 million	•
Stanbic	Up to $3 million	•
Barclays	Up to $2 million	•
Allied	Up to $1 million	
Nile	Up to $1 million	
Centenary	Up to $2 million	

5. Borrower

Borrowers will be "missing middle" SMEs, including rural and agriculture businesses for working capital and longer term financing for expansion of their operations, and MFIs which can borrow from the commercial banks to expand their capital for on-lending to microenterprises.

6. Intended Beneficiaries

The intended beneficiaries of this guarantee activity are MSMEs operating in multiple sectors of the Ugandan economy, including agriculture. MFIs seeking commercial financing will benefit as will the commercial banks from moving into a profitable new market. Rural economies where agribusinesses are located will benefit from enterprise growth financed with DCA support.

7. Illustrative Terms of the DCA Activity

Guaranteed Party	Multiple commercial banks (see above)
Type of Guarantee	Loan Portfolio Guarantee
Amount of Maximum Portfolio ($)	$15 million
Maximum Cum. Disbursements ($)	$30 million
Amount of Guarantee Ceiling ($)	$7.5 million
Level of Guarantee Coverage (%)	50% of principal
Term of Guarantee (in Years)	10 Years
Fees: Origination Utilization	Origination: 0.25% Utilization: 0.50%
Currency (Local or US$)	Ugandan Shillings and US Dollars

8. Market Imperfections

Total loans and advances by the commercial banks in Uganda amounted to UShs 630 billion ($371 million equivalent) at September 30, 2000. The total loan amount guaranteed under the DCA activity is $15 million, which forms a small part of the loans and advances by commercial banks in Uganda. However, given the very small support provided to the MSME sector by the commercial banks, the introduction of loans of $15 million to this neglected sector would have a significant impact. Furthermore, the total amount advanced to MSMEs under the DCA guarantee will be significantly greater than $15 million since the loans from the commercial will be rolled over several times up to $30 million in maximum cumulative disbursements.

9. Additionality

Given that there is little commercial bank lending to MSMEs, the DCA guarantee will not compete with private sources of funds for this purpose. On the contrary, the DCA guarantee is expected to significantly expand commercial bank lending to MSMEs either directly or through wholesale lending to MFIs. By demonstrating that profitable loans can be made to carefully selected MSMEs, the DCA program will provide incentives for commercial banks in general to engage in this type of lending to new market segments, and will create a demonstration effect for additional banks to move into the market.

The regeneration of the Ugandan economy following past social-political problems has created demand for capital to invest in SMEs and microenterprises, many of which are located in rural areas. However, given the problems of the past, the general willingness of the banking sector to invest in financially unproven ventures, particularly in rural areas, will remain low. Without USAID as a guarantor, it is likely that a market for these types of projects will be very slow to develop.

TAB 9: DCA RESOURCE CENTER
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Country Matrix (Africa)

Chemonics International Inc.
Development Credit Authority Initiative

COUNTRY ANALYSIS
Updated 7/12/2005

Africa

Country	DCA to Date	Upcoming '05 Deals	ICRAS Risk Rating (if known)	Mission SOs	Other Donor Funds / Guarantees	Current Chemonics Projects	Chemonics NBD Efforts including DCA	Marketing	Comments
Angola	NA			Improved Food Security, Civil Society Strengthening, Maternal and Child Health and HIV/AIDS, Market-Oriented Economic Analysis					
Benin	NA			Reforming Primary Education, Integrated Family Health, Governance Program		MCA Developing a business plan for the Millennium Challenge Account-Sub-program in expansion of agricultural production and exports			FY 2004 MCA Eligible Country
Burundi	NA			Democracy and Governance, Food Security, Health					
Democratic Republic of Congo	NA					Community Focused Reintegration Program (CFR), ends 2/24/2006			
Eritrea	NA			Rural Enterprise Investment Partnership, Health and HIV/AIDS, Developing Human and Institutional Capacity					
Ethiopia	2 LPGs, Agriculture - Awash International Bank, ($4.5 mil, MCD = $9 mil b/c revolving) - Bank of Abyssinia ($4.5 mil, MCD = $9 mil b/c revolving)			Food Security, Essential Services for Health, Basic Education, Democracy and Governance, Mitigate the Effects of Disaster, Southern Tier Initiative		Market-Led Livelihoods for Vulnerable Populations (MLVP), ends 1/31/2007 Rural Livelihoods Baseline Study	Growing Ethiopian Markets - lost. Providing linkages to 2 existing DCA deals for financing ag coops, and other ag businesses. Included additional DCA support for cereal WR component in proposal.		
Ghana	2 LPGs, SME/Agriculture - EcoBank, ($3 mil), 2003 - Standard Chartered Bank ($10 mil) 1 LPG, SME, Standard Chartered Bank, ($10 mil), 2003 - DE-OBLIGATED			Strengthened Democratic and Decentralized Governance, Competitiveness of Ghanaian Private Sector in World Markets Increased, Health Status Improved, Improved "Quality of and Access to Basic Education		Ghana Trade and Investment Program for Competitive Export Economy (TIPCEE), ends 11/30/2009	Ghana TIPCEE - won. DCA to encourage bank lending to agribusiness and agroprocessing. Linking Ecobank (with existing DCA guarantee). Project has large GDA component.		FY 2004 MCA Eligible Country

Country	DCA to Date	Upcoming '05 Deals	ICRAS Risk Rating (if known)	Mission SOs	Other Donor Funds / Guarantees	Current Chemonics Projects	Chemonics NBD Efforts Including DCA	Marketing	Comments
Guinea	NA					Agricultural Market Linkages Activity (GAMLA), ends 3/31/2007			
Kenya	2 LGs, SME & Microfinance, 2003 - Coop Bank - SMEP ($1.5 mil) - Coop Bank - Faulu ($1.5 mil) 1 LPG, 2003, Agriculture/Trade/Tourism - Coop Bank ($1 mil) 1 LPG, Agriculture/Trade/Tourism, Coop Bank, ($3 mil) 1 LPG, dairy, ($5 mil), NIC Bank	- Warehouse receipts for maize a la Zambia model	8 in 2005	HIV/AIDS, Population, and Health, Natural Resources Management, Democracy and Governance, Increased Rural Household Incomes, Basic Education	OPIC, $7.1 million to JNP Properties, Inc. for construction of 400 housing units in Nairobi	See RATES under REDSO below			Zack Ratemo, EG Officer leads all DCA efforts to date for the Kenya Mission FY 2004 MCC Threshold Country 2 LPGs, Agriculture/Trade/Tourism, 2003, Stanbic Kenya, ($2.5 mil) & Standard Chartered Kenya ($3 mil) - CANCELLED 2 LGs, SME & Microfinance, Stanbic - KWFT, ($1.5 mil), 2003 & Microfinance/SME, Coop Bank/KWFT, ($1.5 mil), 2004 - CANCELLED
Liberia	NA			Improved Community Health, Improved Economic Livelihood, Civil Society and Democracy, Community Revitalization and Reintegration					

Country	DCA to Date	Upcoming '05 Deals	ICRAS Risk Rating (if known)	Mission SOs	Other Donor Funds / Guarantees	Current Chemonics Projects	Chemonics NBD Efforts including DCA	Marketing	Comments
Madagascar	NA	1-2 LPGs expected for agbiz lending through the Chemonics Mkt. T&D project		Governance in Targeted Areas Improved, Selected Health Services and Products, Biologically Diverse Forest Ecosystems, Critical Private Markets Expanded		SanteNet Improving Health Services, Products, and Practices, ends 12/24/2008; BAMEX Market and Trade Development, ends 8/17/2009	Market and Trade Development - won; 1-2 $2 mil LPGs for agribusiness finance		FY 2004 MCA Eligible Country
Malawi	NA	- SALES est. multi-bank, multi-sector DCA program thru which Warehouse receipts for maze		Rural Income Growth, Increased Constitutionalism and Advocacy, AIDS and Family Health, Basic Education		Support for Agriculturally Linked Enterprises (SALES), ends 9/30/2008 Deepening the Microfinance Sector (DMS), ends 9/30/2007	Malawi Microfinance - won, DCA presented as culmination of MFI capacity building - helping MFIs source commercial capital		FY 2005 MCC Threshold Country
Mali	2 LPGs for Agribusiness - BICIM ($3 million) - Bank of Africa ($700,000), 2001 1 LPG, Agribusiness, Bank of Africa, ($700,000), 2001 - CANCELLED		7 in 2001	High Impact Health Services, Improving Quality of Basic Education, Shared Governance through Decentralization, Accelerated Economic Growth, Communications and Development		Financial Sector Strengthening, ends8/1/2008 (FS project has taken over implementation of the BICIM guarantee) Trade Promotion, ends 8/30/2006			FY 2004 MCA Eligible Country
Mozambique	NA			Rural Incomes, Exports, Maternal & Child Health, HIV/AIDS, Municipal Governance		Information Network for Decision Making (MIND), ends 5/31/2005	Mozambique Tourism - lost. Exploring DCA guarantees with commercial banks for tourism lending; looking at Trade Expansion RFP		FY 2004 MCA Eligible Country
Namibia	NA			Private enterprise Development, Community Based Natural Resource Management, Basic Education Support, Reduced Prevalence of HIV/AIDS, Democracy and Governance					

Country	DCA to Date	Upcoming '05 Deals	ICRAS Risk Rating (if known)	Mission SOs	Other Donor Funds / Guarantees	Current Chemonics Projects	Chemonics NBD Efforts including DCA	Marketing	Comments
Nigeria	NA	possibly mortgage lending / secondary mortgage market development linked to Pres. Housing Initiative		Democracy and Good Governance, Sustainable Agriculture and Economic Growth, Basic Education and Health Care, HIV/AIDS and Tuberculosis		Promoting Improved Sustainable Microfinance Services (PRISMS), ends 9/30/2006 Promoting Pro-Poor Opportunities through Commodity and Service Markets (PrOpCom), ends12/6/2010 Maximizing Agricultural Revenue and Key enterprises in Targeted Sites (MARKETS), ends 6/23/2010	Nigeria MARKETS, won. DCA used to back loans for large equipment acquisition and improvements.		Dawn Liberi, MD, very interested in using DCA to support existing & new programs. Mission sponsored DCA training event specifically for SO team leaders in Oct. 2004. PRISMS COP indicates banks will make SME loans w/out guarantee.
Rwanda	1 LPG for SME/Agbiz, including coffee washing stations, Banque de Kigali, ($2 mil - covering 40%). ADAR conducted risk assessment and is linking clients to BdeK.		9 in 2004	Democracy and Good Governance, Health and HIV/AIDS, Rural Economic Growth		Agribusiness Development Assistance (ADAR), ends 11/13/2006			
Senegal	NA					PPP Strengthening Capacity to Implement Public Private Partnerships, ends 12/30/2005	SAGIC - pending. Use of DCA to help increase access to financial services for competitive sectors identified in the RFP and/or facilitate financing for profitable BDS centers. DCA to foster and facilitate PPPs by providing financing on the private side and provide bond guarantees for large infrastructure projects		FY 2004 MCA Eligible Country
Sierra Leone	NA			Reintegration, Strengthening Democracy					
Somalia	NA					FEWS NET Activities in Somalia, ends 5/29/2005			

Country	DCA to Date	Upcoming '05 Deals	ICRAS Risk Rating (if known)	Mission SOs	Other Donor Funds / Guarantees	Current Chemonics Projects	Chemonics NBD Efforts including DCA	Marketing	Comments
South Africa	3 PGs - MIIU, Housing/Infrastructure, ($35 mil), 2003 - INCA, Investec Bank, Infrastructure, ($10 mil), 1999 - GJMC - Municipality, Infrastructure, ($25 mil), 1999 1 Re-Guar - HLGC, Housing/Mortgage, ($100 mil), 2001 CANCELLED 1 BG, Housing, African Bank, ($40 mil), 2002 2 PGs, Housing - CashBank, ($20 mil), 2000 - JHC, ($4.8 mil), 2001 1 LG, Banking, CAPITEC ($8,333,334)	Mission interested in establishing a 4-bank LPG for SME lending during '05. See comments.		Democracy and Democracy and Governance, Education, Economic Capacity Building, Housing & Municipal Services, HIV/AIDS and Primary Health Care, Employment Creation		Public-Private Partnership Support (P3U), ends 6/30/2005	Local Governance - lost TESA II - lost		Averch approached directly by Mission seeking advice and potentially Chemonics services to assist with FY 05 SME guarantees
Sudan	NA		between 9 and 10			Agricultural Enterprise Finance Component of the Southern Sudan Agricultural Revitalization Program (AEFP), ends 9/29/2007	Sudan Microfinance - Carrie sent notes from a June conversation with Lief on 11.8.2004		

Country	DCA to Date	Upcoming '05 Deals	ICRAS Risk Rating (if known)	Mission SOs	Other Donor Funds / Guarantees	Current Chemonics Projects	Chemonics NBD Efforts Including DCA	Marketing	Comments
Tanzania	NA			Family Health and HIV Prevention, Democracy and Governance, Natural Resource Management, Economic Growth		Environmental Education and Communication technical Support Program, ends 9/30/2005 RATES covers TZ			FY 2004 MCC Threshold Country
Uganda	SPEED II DCA ($15 mil total) - Centenary Rural Development Bank - Nile Bank - Standard Chartered Bank - Uganda Microfinance Union (Chemonics deal), 2004 APEP Warehouse Receipts - Barclays Bank, ($8 mil) - Standard Chartered Bank, ($8 mil) - Stanbic Bank ($4 mil) (Chemonics deal), 2004 7 LPGs, Micro/Small Enterprise - Allied Bank ($2 mil), - Centenary Rural Development Bank ($5.885 mil), - Barclays Bank ($5.5 mil), - Citibank ($4 mil), - Nile Bank ($2 mil), - Stanbic Bank ($6 mil), - Standard Chartered Bank ($ 4 mil) (Chemonics deal), 2002	Possibly water / munifinance	9 in 2002 9 in 2004 8 in 2005	Rural Sector Growth, Improved Human Capacity, Governance, Crosscutting - gender, conflict, HIV/AIDS, IT, Food Security, Regional Trade	Government Export facility	Agricultural Productivity Enhancement Program (APEP), ends 7/8/2008 Strengthening the Competitiveness of Private Enterprises (SCOPE), ends 12/31/2006 Rural SPEED Support for Private Enterprise Expansion and Development in Rural Areas, ends 11/09/2007	Rural Financial Services - numerous DCA mentions in the technical; Carrie reviewed the technical and added some information on housing finance.		FY 2004 MCC Threshold Country In September 2004, USAID/Kampala, ODC, the Uganda Ministry of Water, Environmental and Energy, and the National Water and Sewage Corporation sponsored an Innovative Financing Seminar. A rep from the Uganda Capital Market Authority proposed a bong to support water financing. This possibility is now being explored with the Ugandan Association of Private Water Operators.

Country	DCA to Date	Upcoming '05 Deals	ICRAS Risk Rating (if known)	Mission SOs	Other Donor Funds / Guarantees	Current Chemonics Projects	Chemonics NBD Efforts including DCA	Marketing	Comments
Zambia	4 LPGs, Agriculture/Warehouse Receipts - Barclays Bank, ($6.5 mil) - Finance Bank, ($5 mil) - Stanbic Bank, ($3 mil) - Standard Chartered Bank, ($2 mil)	Housing - linked to OPIC	9 in 2004	Increased Competitiveness, Basic Education, Improved Health Status, Democracy and Governance, Multi-sector Response to HIV/AIDS		Preventing the Medical Transmission of HIV, ends 9/30/2009	Zambia Competitiveness (MATEP) - lost. Annex and text box on the Zambia Warehouse Receipts Program. Use of DCA to further develop the warehouse receipts program for small farmers.		FY 2005 MCC Threshold Country
Zimbabwe	NA		between 9 and 10	Participation, HIV/AIDS, Increased Access to Economic Opportunities					
REDSO/ESA	NA			Regional Food Security, Regional Conflict Management and Governance, Regional Health Systems Improvements, HIV/AIDS		**Regional Agricultural Trade Expansion Support (RATES), ends 9/29/2007** - Angola, Burundi Comoros, D.R. Congo, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Sudan, Swaziland,			Lesotho is an FY 2004 MCA Eligible Country

Country	DCA to Date	Upcoming '05 Deals	ICRAS Risk Rating (if known)	Mission SOs	Other Donor Funds / Guarantees	Current Chemonics Projects	Chemonics NBD Efforts including DCA	Marketing	Comments
RCSA **Angola, Botswana, Lesotho (FY 2004 MCA eligible country), Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe**	NA			A More Competitive Southern African Economy, Improved Rural Livelihoods, Improved Electoral Competition in Southern Africa, Improved Management of Selected River Basins		Tanzania, Uganda, Zambia and Zimbabwe **FewsNet (IQC & Core Activities), ends 6/1/2005** - Angola, Burkina Faso, Chad, Eritrea, Ethiopia, Kenya, Malawi, Mali, Mauritania, Mozambique, Niger, Rwanda, Somalia, Sudan, Tanzania, Uganda, Zambia, Zimbabwe **RAPID (IQC & Core Management), ends 3/30/2005** - Angola, Botswana, Democratic Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe **Strengthening Regional Capacities for Early Waring and Food Security in the Greater Horn of Africa 5/30/2005** - Djibouti, Eritrea, Ethiopia, Kenya, Rwanda, Somalia, Sudan, Tanzania, Uganda **Emergency Food Security Assessment and Monitoring in Southern Africa**, ends 5/30/2005 - Malawi, Mozambique, Zambia, Zimbabwe	TESA II - Trade Expansion in Southern Africa - lost		
WARP **Benin, Burkina Faso (FY 2005 MCC Threshold Country), Cameroon, Cape Verde, Chad, Côte d'Ivoire, The Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, and Togo.**				Regional Economic Integration Strengthened, Family Health and AIDS Prevention, FOOD Security and Natural Management, Conflict Prevention					Burkina Faso is an FY 2005 MCC Threshold Country

New Business Tracker

DCA New Biz
As of July 12, 2005

#	Date	Region	Sector	Proposal Title	Explicit or Implicit DCA Mention	Contributed Information to Proposal Team	Technical Content of DCA Component	Contact Person	DCA Writer	Final copy of DCA Section	Win/Loss Status
	May-04	Africa	Trade	Madagascar Mkt. & Trade Dev.	Explicit	Wrote 1.5 page for insertion, Campion CV submitted.	1-2 $2 million LPGs for agribusiness finance.	Andrew Chapin	Carrie Averch	On File	Won
	Jun-04	Africa	D&G/FS/Munifinance	South Africa Local Govemance	Implicit	Wrote 2 page for insert to support munifinance.	Work collaboratively with MIIU project development facility DCA, and explore DCA for increasing private participation in enviroservices.	Chris Diomi	Carrie Averch	On File	Lost
	Jun-04	Africa	Financial Services	Malawi Microfinance	Explicit	Provided chart on multiple uses for DCA to support MF; prepared and reviewed sections on DCA enhanced access to commercial capital; assisted in comp. range response.	DCA presented as culmination of MFI capacity building activities - helping MFIs to source commercial capital.	Kate Woods	Carrie Averch	On File	Won
	Aug-04	Africa	Tourism	Mozambique Tourism	Implicit	RFP diagnosis by email on 8/2.	Explore DCA guarantees with Commercial Banks for tourism lending - p. 15	Karen Jung	Carrie Averch	On File	Lost
	Aug-04	Africa	Trade	TESA II - Trade Expansion in Southern Africa	Implicit	RFP review. Few sentence write up for JS to include in technical.	Exploring DCA to support regional and international trade in selected clusters.	John Strattner / Samantha Parsons	Carrie Averch	On File	Lost
	Aug-04	Africa	Ag/Rural	Growing Ethiopian Markets (GEM) - RAISE IQC Task Order	Explicit	Linked up TCGI for potential partnership. Attending brainstorming session week of 8/16. Averch and Naughton CVs submitted for DCA work.	DCA deals for financing ag coops, and other ag businesses. 2 LPGs of $4.5 million each = $9 million, but $18 million in cumulative disbursements. Proposing additional DCA to support cereal WR component.	Andrew Chapin / Sharyn Routh	Carrie Averch	On File	Lost
	Aug-04	Africa	Competitiveness / Ag	Ghana TIPCE	Explicit	No direct contribution by DCA PMU, b/c Rick knowledgable about DCA. Included for tracking purposes.	DCA to encourage bank lending to agribusiness and agroprocessing. Linking Ecobank (with existing DCA guarantee). Project has large GDA component.	Rick Ody	Rick Ody	On File	Won
	Oct-04	Africa	Financial Services / Rural Finance	Uganda RFS	Implicit	Tech review, added some information on housing finance.	Numerous DCA mentions in the technical.	Emily Friedberg	Carrie Averch	On File	Won
	Nov-04	Africa	AgBiz/NRM	Guinea AgBiz/NRM	Explicit	Carrie offered to help on any credit/finance component on 11.4.04	Not included due to very strict page limits.	Karen Jung	NA	On File - PDF Version	Won
	Dec-04	Africa	AgBiz/NRM	Nigeria Markets	Explicit	DCA mentioned four times in the technical.	DCA used to back loans for large equipment acquisition and improvments.	Doug Leavens	Carrie Averch	On File - PDF Version	Won
	Jan-05	Africa	Competitiveness	Zambia Competitiveness (MATEP)	Neither	Annex on the Zambia Warehouse Receipts Program, textbox on the same, Carrie included as ST specialist.	Use of DCA to further develop the warehouse receipts program for small farmers.	Maura Brazill	Carrie Averch	On File - PDF Version	Lost
	Mar-05	Africa	Economic Policy Reform / Competitiveness	Nigeria REFORMS	Explicit	Carrie sent RFP analysis to Rachael.	Linking up with PRISM's DCA facility to support medium to long-term financing of producer and processor plants and equipment.	Rachael Pierotti	TBD	In Progress	Lost
	Mar-05	Africa	D&G/FS/Munifinance	South Africa Local Govt.	Explicit	Carrie included in the personnel section as a DCA specialist.	Explomig the use of DCA to increase finance for local goemment projects.	Alan Edmond / Megan Huth	TBD	In Progress	Pending

#	Date	Region	Sector	Proposal Title	Explicit or Implicit DCA Mention	Contributed Information to Proposal Team	Technical Content of DCA Component	Contact Person	DCA Writer	Final copy of DCA Section	Win/Loss Status
	May/June 05	Africa	Financial Services	Proposed Task Order for USAID/Haiti - Technical Assistance in Support of the Haiti DCA Program	Explicit	Entire technical relevant to DCA. Watson included as Team Leader, Averch included for DCA specialist	Purpose of the TO is to provide additional technical assistance to SOFIDES and SOGEBANK, both of which have DCA guarantees to increase medium term lending to MSMEs in productive sectors. TA groups include banks' credit deaprtments, management staff, and targeted borrowers.	Stephanie Fugate / Anne Bordonaro	Shannon Sanquist / AMAP team	On File	Pending - In Comp Range
	Jul-05	Africa	Competitiveness	Senegal SAGIC	Explicit	Irina sent suggestions on use of DCA to help increase access to financial services for competitive sectors identified in the RFP, facilitate financing for profitable BDS centers, foster and facilitate PPPs by providing financing on the private side, and provide	In Process	Dana Sandstrom	TBD	In Process	In Process
	Apr-04	Asia	Financial Services	SEGIR-FS DCA Task Order	Explicit	DCA-specific task order.	DCA project development, training, marketing materials.	Carrie Averch	Carrie Averch	On File	Lost on cost
	May-04	Asia	Environment	Philippines EcoGov II	Implicit	3 page write-up on DCA in the technical.	With IP3 to include DCA, project development facilities, and PPP.	Anna Bantug	Carrie Averch	On File	Lost
	Jun-04	Asia	Energy	Philippines Energy and Clean Air (Chemonics a sub to AEAI)	Niether	Advice on technical approach, identification of similar examples in Bangladesh and leasing, corp caps, CVs for CEA and Mauricio Perea submitted.	LPGs for clean fuel switchovers for fuel distributors and transportation businesses.	Jeremy Schanck + Mary Harris	Carrie Averch	On File	Lost
	Aug-04	Asia	D&G/FS/Munifinance	Indonesia Environmental Services Project	Explicit	Wrote Environmental Services Finance section. Requested RFP outcomes include establishing 10 DCA activities over the duration of the project.	10 DCA projects over project duration for environmental services projects.	Jonathan Simon / Alene McMahon	Carrie Averch	On File	Lost
	Feb-04	Asia	Financial Services	Tsunami DCA Concept Paper - modified version submitted to USAID/Sri Lanka	Explicit - Chemonics' own idea, not in resposne to an RFP	5 page document detailing the precedent for DCA use in disaster contexts, Chemonics DCA experience, potential DCA applications for tsunami-affected countries, pillars of technical approach, mini workplan, deliverables, personnel, LOE	MSME retail/wholesale finance, portfolio refinance, supplier credit and leasing, wholesale and retail housing finance, infrastructure finance.	Carrie Averch	Carrie Averch	On File	Pending - looked upon favorably by the Mission
	Apr-05	Asia	Environment	Asia Regional Environmental Partnership (AREP)	Neither	Sent e-mail on 4.19 on possible DCA applications under PIR 1. Improved Access to Clean Water and Sanitation for Urban Poor.	Content Development in progress.	Josh Moga / Flint Hobart / Dave Gibson	Carrie Averch	In Progress	Lost
	Apr-05	Asia	Competitiveness	Indonesia SENADA	Explicit	DCA included in business cluster support section of technical + a half-page tailored section in corpcaps.		Alene McMahon	Irina Sedova/Alene McMahon	In Progress	Lost

#	Date	Region	Sector	Proposal Title	Explicit or Implicit DCA Mention	Contributed Information to Proposal Team	Technical Content of DCA Component	Contact Person	DCA Writer	Final copy of DCA Section	Win/Loss Status
	Jun-05	Asia	Energy	Indonesia Energy IQC	Explicit	Chemonics is a sub to AEAI. We are providing bullet points to AEAI's technical writer, corpcaps, and CVs TBD for DCA and energy finance.	Providing partial guarantees to local banks for small-scale energy projects - "...contractor will assist in identifying, arranging, and presenting projects for financing."	Gwen Andersen	AEAI (Chemonics is a sub)	Will be requested	Pending
	Jun-04	Europe/Eurasia	D&G/Civil Society	Russia Media RFA	Implicit	Wrote approximately one page for inclusion into the technical approach .	DCA for financing of independent media outlets.	Anna Johnson Slother	Carrie Averch	On File	Lost
	Jul-04	Europe/Eurasia	Financial Services	Bulgaria Financial Services	Explicit	Sent DCA/finance diagnosis to team.		Joey Jordan	Carrie Averch	EE decided not to bid	
	Jul-04	Europe/Eurasia	Ag/Rural	Romania Agribusiness	Explicit	Sent information to G-team (Ricardo F.) and brainstorming with proposal team on 7/28. Connection with John Deere.	DCA LPGs to support 5 identified clusters - potential lenders = B. of Transylvania & Rafeissen.	Kevin Covert	Carrie Averch	On File	Won
	Aug-04	Europe/Eurasia	Ag/Rural	Central Asia Agricultural Finance (Kaz, Kyrg, Tajik)	Implicit	Provided background information to prep for G-trip including Ag Finance questions list, and information from ODC EE rep. Sent proposal samples to Steve Dobrilovic.	Points given for including DCA.	Olin McGill	Carrie Averch	On File	Lost
	Mar-05	Europe/Eurasia	Financial Services	Ukraine Pensions Reform	Implicit	Carrie met with Olin and Martha Kelly to discuss and provide relevant information.	DCA guarantees to help increase the attractiveness of instruments targeted for the SME and agriculture sectors.	Olin McGill	Olin McGill	On File	Pending
	May-05	Europe/Eurasia	Financial Services	RFA - Draft Version - Private Sector Support to SMEs (Georgia)	Explicit	NA - Carrie sent questions to Eric Reading re: info presented in RFA	DCA to support agricultural lending, SME finance, wholesale lending to MFIs, and financial institution bond issues	Eric Reading	NA	EE decided not to bid	
	Jun-05	Europe/Eurasia	Water	Trans-boundary Integrated Water Resource Management (TIWRM)	Implicit	Carrie provided comments to Karen on the phone and in person.	Task 3.2 - Promote private sector involvement in environmentally friendly enterprise development and practices.	Karen Jung	Carrie Averch / Karen Jung	In Process	In Process
	Apr-04	IHG	Health	Guyana GHARP	Implicit	RFP diagnosis and preliminary ideas for incorporation into proposal - partially integrated.	DCA used in the context of innovative approaches to income generation schemes.	Nancy Manson	Info requested	On File	Lost
	May-04	IHG	Health	Philippines Private Sector Family Health	Implicit	DCA only mentioned in Roles & Responsibilities chart for project actors.	Financing for local pharmaceutical manufacturers.	Blake Rainei	Info requested	On File	Won
	Jul-04	IHG	Health	Global Health Private Sector Program - Increasing Access to Credit for Private Sector Providers of Reproductive Health and Family Planning Services	Explicit	Contribued substantively to technical approach and teaming with TCGI (another firm that works on DCA). Wrote sections on lender TA, DCA risk mitigation (Task A) and Summa Foundation asset management (Task C) using DCA approach.	Linking private sector health providers to finance through existing and new DCA guarantee facilities in priority countries. Averch in at 25% LOE, brought in TCGI small business.	Kristen Wiebe / Lisa Gihring	Carrie Averch	On File	Lost

#	Date	Region	Sector	Proposal Title	Explicit or Implicit DCA Mention	Contributed Information to Proposal Team	Technical Content of DCA Component	Contact Person	DCA Writer	Final copy of DCA Section	Win/Loss Status
	Apr-04	LAC	Trade	Guyana GTIS	Implicit	1 page on bank risk aversion, proposing a DCA feasability study.	Finance for tourism, ag processors, and based on remittances.	Christian Kolar, Dan Cruz de Paula	Carrie Averch	On File	Lost
	Apr-04	LAC	D&G/Civil Society	Mexico Rule of Law	Niether	1 paragraph on DCA backing loans to mediation training and legal clinics.	Financing media outlets - comments from Mission indicated they misinterpreted DCA section.	Joe Rio	Carrie Averch	On File	Lost
	Jul-04	LAC	Environment	Honduras NRM	Explicit	Conducted G-trip with Dan Cruz de Paula. Met with multiple banks and NBFIs to gauge interest in being partner lenders with DCA + TA support.	Providing linkages to existing DCA deals to finance clean energy projects for private/municipalities/communities, ecotourism, and agbiz.	Amy Bodmann	Carrie Averch	On File	Lost
	Jul-04	LAC	Ag/Rural	Honduras Rural Competitiveness	Implicit	Conducted G-trip with Dan Cruz de Paula. Met with multiple banks and NBFIs to gauge interest in being partner lenders with DCA + TA support.	DCA not mentioned in the final technical.	Christian Kolar, Dan Cruz de Paula	NA	On File	Pending, In Comp Range
	Jul-04	LAC	D&G/FS/Munifinance	Guatemala Local Governance	Explicit	Prepared G1 questions, 1.5 page annex on municipal finance possibilities utilizing DCA.	Highlighted Egypt water example, advanteges of utilizing DCA, Chemonics experience, Chemonics' DCA PMU.	Robert Keating	Irina Sedova	On File	Lost
	Aug-04	LAC	Financial Services	Mexico Microfinance	Implicit	Not included due to Mission biases against DCA.	Not included due to Mission biases against DCA.	Shannon Sanquist	NA	On File	Lost
	Jan-05	LAC	Competitiveness	Bolivia Trade and Business Competitiveness Rebid	Explicit	Carrie prepared a 2-pager focusing on structuring guarantees in high credit risk countries. Most of the information did not make it into the technical due to space contraints.	General write up of DCA use in the SME sector, examples of Rwanda and Georgia as high risk countries with guarantees, estimate of the subsidy cost for USID/Bolivia.	Brenna McKay, Mike Schwartz, Jules Lampell	Carrie Averch	On File	Won
	Apr-05	LAC	SME Development / Competitiveness	Colombia MIDAS	Implicit	Carrie sent an e-mail to the proposal team and Michael Gold about CTO Paul Davis' biases against DCA on 4.27	DCA was not included.	John Nittner, Eve Hamilton, Micheal Gold	NA	On File	Pending
	May / June 05	LAC	Ag/Rural/Tourism	Jamaica Rural Enterprise, Agricultural and Community Tourism (REACT) activity	Explicit	In development	DCA-backed lending to water sanitation projects; to small and medium hotels and manufacturers for technologies that promote energy and water conservation; and SMEs for business expansion, fixed asset improvement, and equipment purchases.	Marialyce Mutchler	Marialyce Mutchler	In Progress	In Progress
	May-05	LAC	Competitiveness / Environment	Nicaragua Economic Opportunities	Implicit	Carrie sent e-mail w/ideas & feedback	Stimulate finance for underserved NRM sector & tourism	Amy Bodman	Doug Baker	On File	Pending

#	Date	Region	Sector	Proposal Title	Explicit or Implicit DCA Mention	Contributed Information to Proposal Team	Technical Content of DCA Component	Contact Person	DCA Writer	Final copy of DCA Section	Win/Loss Status
	May-05	LAC	Competitiveness	Honduras VENDE - Honduras More Competitive, Market-Oriented Private Enterprises	Implicit	N/A	Work with client MSMEs to finance technology improvements, helping them make use the ProArca Clean Production DCA Guarantee through BAMER.	Anne Bordonaro	Joel Webber	On File	Pending
	Jun-04	Middle East	Environment	Egypt LIFE	Implicit	Chemonics-desgined DCA deals for Private sector participation in water sector; revised and substantially augmented existing sections on DCA included in draft.	DCA Guarantees for MSMEs, used Egypt Water example.	Maria Navia	Carrie Averch	On File	Lost
	Aug-04	Middle East	Tourism	Egypy LIFE Red Sea Tourism	Explicit	Collected info. from ODC on status of tourism lending under existing DCA guarantee with NSGB. Chris using Phil. EcoGov + Indo ESP as models.	Draft check list of ecoutoursm financing under DCA.	Chris Smith	Chris Smith	On File	Won
	Aug-04	Middle East	Financial Services	Egypt Financial Services	Implicit	DCA included only by indirect reference.	DCA included only by indirect reference.	Ryan Smith	Peter Bittner	On File	Won
	Sep-04	Middle East	Agriculture	Morocco Agriculture and Agribusiness Development	Explicit	Carrie sent response to RFP on 9.27.04 and wrote KRA 2.6 for Ryan Smith. Carrie's CV included.	LPGs for agribusiness lending including for drip irrigation conversion.	Oriana Wuerth	Carrie Averch	On File	Won
	Jan-05	Middle East	Agriculture	Palestinian Agribusiness Parnership Activity	Explicit	Included in evaluation criteria.	Textbox on how DCA could support PAPA objectives, mentioned Uganda SPEED DCA in corp caps.	Nora Bazzy, Roberto Toso	Rob Teitelbaum	On File	Lost
	Apr-05	Middle East	SME Development/ Competitiveness	Cyprus Enterprise Development	Explicit	purchase order/working capital finance as well as suggested candidates for the position of Business Development Advisor. Short reference to DCA in the technial. Averch CV included.	Using DCA to stimulate lending to SMEs in complement with capacity building for businesses and the banking sector.	Jennifer Stewart	Jennifer Stewart	Requested	Lost
	Apr-05	Middle East	MSME Development	Morocco Improved Biz Environment	Explicit	Content development in progress.	Provided extensive general and DCA-specific input.	Rob Teitelbaum	Rob Teitelbaum	On File	Pending
	April / May 05	Middle East	Tourism	Jordan Tourism	Explicit	3-page write up on possibilities for tourism site and product development, Carrie provided comp range advice	SOW requests that the contractor develop a concept paper for an LPG or a BG up to $50 million to be utilized for product development, site development etc. USAID wants to assign funds in mid FY-2006	Chris Smith, Rebecca Talaga, Ryan Smith	Carrie Averch sent to Ryan Smith	On File	Pending, In Comp Range
	Jul-05	Middle East	Environment	Cyprus SEMP	Explicit	Carrie to respond to the RFQ and send CV.	In Process.	Erinn McNamara	Carrie Averch	In Progress	In Process
	Apr-04	IQC	Environment	Environmental Health IQC	Implicit	Textbox: Using DCA to promote lending for eco-friendly technologies leading to reduced air pollution.	Use of DCA to expand local bank participation in lending to firms investing in P2 technologies.	Josh Moga	Carrie Averch	On File	Lost

#	Date	Region	Sector	Proposal Title	Explicit or Implicit DCA Mention	Contributed Information to Proposal Team	Technical Content of DCA Component	Contact Person	DCA Writer	Final copy of DCA Section	Win/Loss Status
	May-04	IQC	Financial Services	FS BPA	Explicit	"Carrie sent textboxes"	Textboxes, Jack Thompson	Anita Campion	Anita Campion	In Progress	Won
	Jul-04	IQC	Water	Water IQC	Explicit	Sent information on Egypt Sec. Cities DCA deals as well as general information about trends in USAID financing for water.	Broad	Mario Kerby	Carrie Averch	On File	Won
	Aug-04	IQC	Environment	Environmental Compliance and Policy Support - EPIQ II IQC TO	Niether	DCA not included in the technical. Averch presented in ST roster.	DCA briefly mentioned in the personnel section.	Maria Navia	Carrie Averch	On File	Won

DCA New Biz Stats: April 2004 - July 2005

Total Proposals	57
NA = DCA not included	2
Won	15 (39%)
Lost	23 (61%)
Pending	19
Explicit DCA Requirement	30
Implicit DCA-related Requirement	20
No DCA-related Requirement	5

Region	Number	Sector	Number
IQCs	4	Environment	7
Africa	15	Water	2
Asia	8	Energy	2
Europe/Eurasia	7	D&G	6
LAC	11	Ag / Rural Finance	9
Middle East	9	Health	3
IHG	3	Trade / Competitiveness / MSME Dev.	14
		Financial Services	11
		Tourism	3
Total	57	Total	57
N/A = not included didn't bid	2		

G – Trip Tool: Questions for Banks with Existing DCA Guarantees

Questions for Banks that already have a DCA guarantee agreement

General

- Does the bank have an annual report that they could give you?
- What is the bank's ownership structure? (if not found in the annual report)
- What does the bank consider to be its niche within the financial sector?
- Which financial institutions does it see as competitors?
- What types of financial products and services does it offer currently?
- What is their marketing strategy for the future? Are they focusing on a particular geographic region and/or segment of the market?
- How expansive is their branch network? Do all the branches make loans or just some?
- What is their system for credit approvals? (do all approvals go to head office or are they done at the branch level up to a certain threshold?)

Specific to the existing DCA guarantee

- How did the bank learn about opportunities to partner with USAID through DCA guarantee facilities?
- Are they comfortable with the definition of "qualifying borrowers" and the loan term parameters prescribed by their existing guarantee agreement?
- How did they feel about the process for putting the guarantee facility agreement into place?
- How has the bank found the process for administration and reporting thus far for their loans under coverage?
- How has the loan portfolio guarantee been integrated into the bank's lending operations?
- Which department(s) within the bank handles (marketing for these clients, originating the loans, and loans placed under guarantee the program?
- Have credit officers received and/or will they require targeted training to help them understand the new market being lent to under the guarantee?

New DCA possibilities

- Would the bank be interested in partnering with USAID through another guarantee to help them move into any of the markets they are focusing on for the future?
- Would they need training / advisory assistance in analyzing businesses in these new markets?

G – Trip Tool: Questions for SME/Competitiveness DCA Projects

DCA Questions
SMEs in Competitive Sectors

Financial Sector

- What is the estimated liquidity in the banking system?
- What is the current return rate for domestic Treasury bills / bonds / notes?
- What are average interest rates on local currency and hard currency loans?
- Basic information on property rights, collateral pledging and registries, enforcement of contracts.
- What is the longest term money in the financial system?

Potential Lenders

- Which commercial banks are operating in country or specifically in target regions?

- Do any of these banks currently offer credit to any SMEs or larger businesses in sectors identified as competitive? What are the standard terms of these lenders?
  a. loan purpose
  b. loan tenor (duration / term)
  c. effective interest rates
  d. collateral percentage to value of loan

- What non-bank financial institutions if any provide credit to the SMEs in sectors identified as competitive? What are the standard terms of these lenders?
  a. loan purpose
  b. loan tenor
  c. effective interest rates
  d. collateral percentage to value of loan

Leasing

- Is there equipment leasing available in the market? Do companies lease the type of equipment target SMEs need to improve production practices? What are standard leasing terms?

Potential Borrowers

- Which of the following represent specific access to credit constraints for SMEs in identified competitive sectors?
  a. loan tenors offered too short
  b. collateral requirements (requirements for real estate, high percentage to loan value, etc.)
  c. interest rates not affordable
  d. unable to present coherent/transparent business plan to lenders
  e. other

- What types of financial products and services do each of the sectors need in broad terms?
  a. short-term working capital
  b. longer term fixed asset loans for equipment upgrades
  c. pre-export financing
  d. other

- Where are SMEs in competitive sectors obtaining credit now if at all?
  a. suppliers
  b. family money
  c. equity partners
  d. local banks
  e. other

DCA Consultant Roster

Potential DCA Consultants

EXTERNAL						
Name	**Contact Info.**	**Resume**	**Niche**	**Regional**	**Languages**	**Comments/Bio**
Alcorn, Michael	Recruitment System - Michael Alcorn main page	Recruitment System - Michael Alcorn original resume	Microfinance, SME finance, privatization, marketing	World	Proficient Russian and Mandarin Chinese, basic Spanish	
Allabadi, Ali Mobadda	Recruitment System - Ali Allabadi main page	CVs\Allabadi, Ali.doc	Water and agriculture	Middle East	Fluent Arabic	
Anderson, George	george_s._anderson@hud.gov; gsa8909@verizon.net; gsa8909@yahoo.com; 202-708-0926	Bio	Mortgage-backed securities, loan guarantees for large scale land development projects			Senior Advisor to the President of Ginnie Mae
Batson, Howard	876-926-3645	Recruitment System - Howard Batson original resume	Agriculture, NRM	LAC	Spanish, French	Designed a DCA guarantee in Jamaica
Birnbaum, Kenneth	kbirnb@aol.com 202-288-7093	CVs\Birnbaum, Kenneth_updated CV.doc	Credit risk analysis, structured lending, debt structuring	Africa, Asia, LAC		
Boni, Robert	Recruitment System - Robert Boni main page	Recruitment System - Robert Boni original resume	Housing, municipal finance, financial analysis	LAC	Spanish	Undertook a DCA credit evaluation in Brazil
Cole, Stewart	nanocole@sover.net; 802-824-6004; 802-824-6739	CVs\Cole, Stewart.doc	Trade and SME finance, credit risk analysis, MIS	LAC, Asia, E&E Balkans, Iraq	Fluent Spanish, working Portuguese, conversational Chinese and Serbo-Croatian, reading knowledge of French	Advisor on the USAID Iraq Economic Governance Project, used to be an EximBank Lending Officer
Darosett, Timothy	Recruitment System - Timothy Darosett main page	CVs\Darosett, Timothy S..doc	Debt and equity markets, due diligence, int'l finance	E&E, Asia	Basic French, Spanish, and Greek	
Dongol, Bilas Man Singh	Recruitment System - Bilas Man Singh Dongol main page	CVs\Dongol, Bilas Man Singh.doc	Water and sanitation	Iraq, Bosnia, Nepal	Fluent Nepali and Hindi	Advisor- Water and Sanitation sector

Name	Contact Info.	Resume	Niche	Regional	Languages	Comments/Bio
Dorph, Kenneth	Recruitment System - Kenneth Dorph main page	CVs\Dorph.Kenneth.J. DCA.TO_04.doc	Credit risk analysis, bank evaluation, risk management, loan structuring	Global	Fluent Spanish, French, Arabic, conversational Italian, Portuguese, basic Turkish and Mandarin	
Dycus, Gary	garydycus@aol.com; 212-534-2099	Dycus, Gary.doc	Ag lending, leasing, credit risk assessment	Asia	?	
Eymery, Muriel	murieleymery@cs.com; 212-570-5571	CVs\Eymery, Muriel.do	Health, infrastructure, water, energy, microfinance	Francophone Africa, Latin America, Southern Europe, Asia	Fluent in French and Spanish, working knowledge of Portuguese and German	
Glover, Christine Ann	Recruitment System - Christine Glover main page	CVs\Glover, Christine Ann.doc	Financial and risk analysis, microfinance institutions, banking	South Africa	Basic German, Conversational Afrikaans	
Grubb, Dennis	Recruitment System	CVs\Grubb, Dennis - Original CV.doc	"Brilliant Capital Markets Guy," stock exchange, financial services, institutional strategic planning, credit guarantee	Asia, E&E, LAC	General Spanish, Limited Arabic, French, Hindi, Romanian, and Sinhalese	
Hjelle, Andrew	hjellec@uiuc.edu; 309-472-2991	CVs\Hjelle, Andrew.pd	DCA M&E		Intermediate French, basic Spanish	Intern possibility / former intern at ODC
Ibrahim, Laurence	703-313-9458, 917-273-3761, librahim@cox.net	CVs\Ibrahim, Laurence	Debt and equity financing, power, manufacturing	Africa, Middle East, LAC, Asia	Fluent French, proficient Arabic	
Jarrett, Augustine	301-324-0556	Recruitment System - Augustine Jarrett original resume	Housing, infrastructure, credit enhancements, risk, economic, financial, and credit analysis	LAC, Asia	Minimal	ODC had an issue with the validity of some information on Augustine's DCA proposal CV
Kimotho, Muhota	Recruitment System - Muhota Kimotho main page	CVs\Kimotho, Muhota.doc	Int'l finance and banking, credit management, microfinance, SME finance, due diligence, M&E, assets and loans	Asia, Kenya		Took an intensive 3 month credit analysis course

Name	Contact Info.	Resume	Niche	Regional	Languages	Comments/Bio
Krahoff, Charles	Recruitment System - Charles Krakoff main page	Recruitment System - Charles Krakoff original resume	Trade, competitiveness, privatization (telecommunications, textiles,, media, transport, pharmaceuticals, petroleum, process industries), corporate & SME finance, financial analysis	Africa, ANE, Eastern Europe, Asia	Fluent French, basic Russian	Additional CV
Lorenz, Jerome	Recruitment System - Jerome Lorenz main page	Recruitment System - Jerome Lorenz original resume	SME finance, credit analysis, due diligence	E&E	German and Slovak	
McGill, Bryan	Recruitment System - Brian McGill main page	CVs\McGill, Bryan.htm	Broad background in credit, lending, micro- and SME finance	E&E, ME	Basic Russian, German, and Spanish	
Medoev, Vladimir	Recruitment System - Vladimir Medoev main page	Recruitment System - Vladimir Medoev original resume	SME finance	E&E	Fluent Russian	DCA Deal Design for USAID/Russia
Naughton, Katherine	knaughton@smith.alumnae.net; 212-222-8635; 212-866-5235	CVs\Naughton, Katherine\Katherine Naughton Original CV.doc	Due diligence	E&E, Africa		
Norlund, Bruce	Recruitment System - Bruce Norlund main page	CVs\Norlund, Bruce - 6 Mar 05.doc	Business strategy, SME finance	E&E, Middle East, the Balkans, North Africa	General/Limited Arabic, Functional German, Limited Romanian	
Pareja, Carlos	Recruitment System - Carlos Pareja main page	CVs\Pareja, Carlos C..doc	Credit risk analysis, financial management	LAC (mainly Peru)		
Peoples, Kenneth	Recruitment System - Kenneth Peoples main page	Recruitment System - Kenneth Peoples original resume	Agribusiness, agricultural trade finance, food processing and marketing, public warehousing/warehouse receipts, banking	Global	Proficient in French and Spanish	
Peponis, Constantinos	Recruitment System - Constantinos (Dino) Peponis main page	CVs\Peponis.Constantios FS.BPA 04.doc	Due diligence, bank strengthening, SME loan policies	E&E, Asia, ME, LAC	Fluent Greek, basic French	Only has a BA
Perea, Mauricio	mdpereal@yahoo.com; 703-532-6788; 202-425-7223	CVs\Perea, Mauricio.DOC	Leasing , credit risk analysis	LAC	Spanish	

Name	Contact Info.	Resume	Niche	Regional	Languages	Comments/Bio
Perry, Debra	perrydebra@hotmail.com; 0208-947-8495; 0791-903-8767	CVs\Perry, Debra.doc	Credit risk assessment, bank training on loan pricing and provisioning	LAC, ME (Egypt)	Basic Spanish and French	British/Canadian; worked for IFC
Potts, Larry	Recruitment System - Robert Potts main page	CVs\Potts, Larry.doc	Credit risk assessment	E&E, Asia, LAC		Good rep at DAI from Bosnia BRFF
Roth, Allan	Recruitment System - Allan Roth main page	Recruitment System - Allan Roth original resume	Capital market development, privatization, finance	World		
Safavi, Niko	Recruitment System - Niko Safavi main page	CVs\Safavi, Niko.doc	Credit risk analysis and management	China	Conversational German, Fluent Farsi	
Shaffer, Christopher	c_shaffer@hotmail.com; 202-550-5344	CVs\Schaffer, Christopher.doc	Structured finance	Middle East, Asia, Afghanistan	Fluent German, working Arabic, basic Farsi	
Siervo, Dino	Recruitment System - Dino Siervo main page	Recruitment System - Dino Siervo original resume	Microfinance, economic and financial analysis, M&E	LAC	Fluent Spanish and Italian	Developed DCA Guarantee for USAID/Nicaragua
Strahota, Robert						Currently employed by the US SEC as international affairs division chief. Will be retiring in late 2005. Met with Richard Dreiman and Angus Olson. Expressed interest in doing ST consulting work in 2006 or 2007. Has been a great referring source of candidates at the SEC. Has not given his CV to Chemonics yet.

Name	Contact Info.	Resume	Niche	Regional	Languages	Comments/Bio
Thompson, Jack	Recruitment System - John (Jack) Thompson main page; jackjennythompson@yahoo.com	Recruitment System - John (Jack) Thompson original resume	SME finance, leasing, warehouse receipts	Africa, E&E	Fair French	Uganda SPEED, Albania SBCA From Phil Broughton, "Jack Thompson, who used to be long term on SPEED, did a very good job promoting the DCA with banks in Uganda. We have had very high utilization rates. In addition, he helped develop an SME Lending Training Course that was successfully installed at the local banking institute. He also knows a lot about leasing, which could be helpful in the ag sector, and he did some follow-up and research on a warehouse receipts bill currently in front of parliament."
Toma, Valentina		CVs\Toma, Valentina.doc	Banking, SME and microfinance	E&E	Fluent in French, Russian, and Romanian	
Tomazei, Stelian	Recruitment System - Stelian Tomozei main page	CVs\Tomozei, Stelian.rtf	Housing finance, SME lending, loan monitoring, IT experience, risk analysis/advice	E&E	Proficient French	Credit advisor (lending and monitoring) for the disbursal of European Bank for Reconstruction and Development & European Union EURO 15 Mil. Providing credit and risk advisory, credit training for SME Relationship Managers and Agency Directors.
Wagner, Robert	Recruitment System - Robert Wagner main page	CVs\Wagner, Robert.doc	Capital markets, financial services, microfinance, privatization, banking	Middle East, LAC	Spanish- Good, French- Fair	

Name	Contact Info.	Resume	Niche	Regional	Languages	Comments/Bio
Wall, David M.	Recruitment System - David Wall main page	CVs\Wall, David.doc	Financial sector reform, pensions reform, credit and loan portfolios, strategic consulting, assets and liability management, due diligence	Asia, LAC, E&E	None	
Watson, Paul	pwatson1@comcast.net; 510-848-6525	CVs\Paul Watson\Watson Resume General December 2004.doc	SME finance, municipal finance, credit risk analysis	Global	French, Spanish	
Wegner, Bradley	bcwegner@hotmail.com; 703-591-6810	Recruitment System - Bradley Wegner original resume	Energy	E&E	Russian	
Weiss, Kirsten	Recruitment System - Kirsten Weiss main page	CVs\Weiss, Kirsten Mar 5.doc	Microfinance (rural and agricultural loans), credit analysis, business loans	E&E	Conversational Russian and Spanish	

List of Action Packages in the Hard Copy DCA Resource Center

DCA Resource Center
Action Packages and Concept Papers

Region	Country	Sector	Entity	Type of Entity	Approved	Project Type *	Max Cumulative Disburs.	Facility Amount	Guarantee Portion	Status
*LAC	Brazil	Energy	Gethal Amazonas	Energy Group	8/30/2000	LG	6,000,000	6,000,000	3,000,000	Deobligated
E&E	Bulgaria	SME	FIB	Financial Institution	8/27/2001	LPG	20,000,000	20,000,000	10,000,000	Current
E&E	Croatia	Housing	Privredna Bank	Financial Institution	8/28/2002	LPG	20,000,000	17,500,000	8,750,000	Current
LAC	Ecuador	Microfinance	Banco Solidario	Financial Institution	5/21/2002	PG	4,000,000	4,000,000	2,000,000	Current
ANE	Egypt	Water	Commercial International Bank	Financial Institution	6/18/2003	LPG	40,000,000	40,000,000	20,000,000	Current
ANE	Egypt	Water	Egypt Commercial Bank	Financial Institution	6/18/2003	LPG	16,000,000	16,000,000	8,000,000	Cancelled
	El Salvador									
AFR	Ethiopia	Agriculture	Awash Commercial Bank	Financial Institution		LPG	9,000,000	4,500,000	2,250,000	
AFR	Ethiopia	Agriculture	Bank of Abyssinia	Financial Institution		LPG	9,000,000	4,500,000	2,250,000	
LAC	Honduras	Infrastructure	Banco Mercantil	Financial Institution		LPG	5,000,000	5,000,000	2,500,000	
LAC	Honduras	Infrastructure	Banco de Occidente	Financial Institution	5/21/2002	LPG	5,000,000	5,000,000	2,500,000	Current
ANE	India	Energy	MNI	Power Company	9/15/2000	PG	7,000,000	7,000,000	3,500,000	Cancelled
ANE	India	Water	Tamil Nadu Municipalities	Municipality	9/24/2001	BG	6,400,000	6,400,000	3,200,000	Current
*R[55]CA	India	Water & Infrastructure	Karnataka WSPF (KUIDFC)	Municipal Institution	8/28/2003	BG	21,700,000	21,700,000	10,850,000	Current
E&E	Kazakhstan	Housing	Lariba Bank	Financial Institution	9/8/2000	BG	1,000,000	1,000,000	500,000	Current
ANE	Jordan	SME	Bank of Jordan	Financial Institution	6/2/2005	LPG	5,000,000	5,000,000	2,500,000	Current
AFR	Kenya	Agribusiness	NIC Bank	Financial Institution	Package subm	LPG	5,000,000	5,000,000	2,500,000	
**LAC	Regional	Environment	Clean Tech Fund	Inv. Fund		PLPG		17,500,000	8,750,000	????
AFR	Mali	Agribusiness	Bank of Africa	Financial Institution	6/14/2001	LPG	700,000	700,000	350,000	Current
AFR	Mali	Agribusiness	BICIM	Financial Institution	6/14/2001	LPG	3,000,000	3,000,000	1,500,000	Current
LAC	Mexico	Microfinance	Union Progresso	Credit Union	9/15/2000	LG	1,000,000	1,000,000	500,000	Current
LAC	Mexico	Microfinance	Fincomun	Credit Union	9/13/2000	LPG	2,500,000	2,500,000	1,250,000	Current
LAC	Nicaragua	SME	Bancentro	Financial Institution	8/28/2002	LPG	5,000,000	5,000,000	2,500,000	Current
ANE	Morocco	Housing	BMCE	Financial Institution	7/1/2002	LPG	5,000,000	5,000,000	2,500,000	Current
ANE	Morocco	Microfinance	Al Amana MFI	MFI	7/1/2002	PG	1,000,000	1,000,000	500,000	Current
ANE	Morocco	Microfinance	Zakoura	MFI	7/1/2002	PG	1,000,000	1,000,000	500,000	Current
ANE	Morocco	Microfinance	Al Amana II	MFI	7/25/2003	PG	4,000,000	4,000,000	2,000,000	Current
ANE	Morocco	Microfinance	Zakoura II	MFI	7/25/2003	PG	4,000,000	4,000,000	2,000,000	Current
LAC	Paraguay	Infrastructure	Multibanco	Financial Institution	8/28/2001	LPG	3,000,000	3,000,000	1,500,000	Cancelled
LAC	Peru	Microfinance	FOGAPI	Financial Institution	8/28/2002	LPG	2,000,000	2,000,000	1,000,000	Current
ANE	Philippines	Health	OMB - WFMC	Financial Institution	8/7/2003	LPG	750,000	750,000	375,000	Current
AFR	South Africa	Housing	GJMC	Municipality	9/7/1999	PG	25,000,000	25,000,000	12,500,000	Current
AFR	Uganda	SME & Microfinance	Barclays Bank	Financial Institution	1/25/2002		5,500,000	5,500,000	2,750,000	Current
AFR	Uganda	SME & Microfinance	Centenary Bank	Financial Institution	1/25/2002	LPG	5,520,000	5,520,000	2,760,000	Current
AFR	Uganda	SME & Microfinance	Citibank Uganda	Financial Institution	1/25/2002	LPG	4,000,000	4,000,000	2,000,000	Current
AFR	Uganda	SME & Microfinance	Nile Bank	Financial Institution	1/25/2002	LPG	3,000,000	3,000,000	1,500,000	Current
AFR	Uganda	SME & Microfinance	Standard Chartered Bnk	Financial Institution	1/25/2002	LPG	4,000,000	4,000,000	2,000,000	Current
AFR	Uganda	SME & Microfinance	Allied Bank	Financial Institution	1/25/2002	LPG	2,000,000	2,000,000	1,000,000	Current
AFR	Uganda	SME & Microfinance	Stanbic Bank	Financial Institution	1/25/2002	LPG	6,000,000	6,000,000	3,000,000	Current
AFR	Uganda	Warehouse Receipts	Barclays Bank	Financial Institution	2/10/2005	LPG	8,000,000	8,000,000	4,000,000	Current
AFR	Uganda	Warehouse Receipts	Stanbic Bank	Financial Institution	2/11/2005	LPG	8,000,000	8,000,000	2,000,000	Current
AFR	Uganda	Warehouse Receipts	Standard Chartered Bnk	Financial Institution	2/12/2005	LPG	4,000,000	4,000,000	4,000,000	Current
AFR	Uganda	SME & Microfinance	Centenary Bank	Financial Institution	10/21/2004	LPG	3,000,000	3,000,000	1,500,000	Current
AFR	Uganda	SME & Microfinance	Nile Bank	Financial Institution	10/22/2004	LPG	4,000,000	4,000,000	2,000,000	Current

Region	Country	Sector	Entity	Type of Entity	Approved	Project Type *	Max Cumulative Disburs.	Facility Amount	Guarantee Portion	Status
AFR	Uganda	SME & Microfinance	Standard Chartered Bank	Financial Institution	10/23/2004	LPG	6,000,000	6,000,000	3,000,000	Current
AFR	Uganda	SME & Microfinance	Uganda Microfinance Union	MFI	10/24/2004	LPG	2,000,000	2,000,000	1,000,000	Current
E&E	Ukraine	Agribusiness	Nadra Bank	Financial Institution	5/21/2002	LPG	6,000,000	3,000,000	1,500,000	Current
ME	West Bank./Gaza	SME	Bank of Jordan SME	Financial Institution	2/10/2005	LPG	5,500,000	5,500,000	2,250,000	Current
AFR	Zambia	Agriculture	Barclays Bank	Financial Institution	2004	LPG	6,500,000	3,250,000	1,300,000	Current
AFR	Zambia	Agriculture	Finance Bank Zambia	Financial Institution	2004	LPG	5,000,000	2,500,000	1,000,000	Current
AFR	Zambia	Agriculture	Stanbic Bank Zambia	Financial Institution	2004	LPG	3,000,000	1,500,000	600,000	Current
AFR	Zambia	Agriculture	Standard Chartered Bank Zambia	Financial Institution	2004	LPG	2,000,000	1,000,000	400,000	Current

*missing Attachments B (Economic Analysis) & G (Credit Subsidy Calculations)
**missing Attachment IV (Risk Assessment) and has V (Subsidy Cal.) which isn't on list
***missing Attachments V-XI

Notes

TAB 11: REVIEW OF PART I
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Chemonics International Inc., 1133 20th St. NW, Washington, DC 20036
Telephone 202.955.3300, Fax 202.955.3400, www.chemonics.com

Presentation: Review of DCA Seminar Part I

Review of Part I

DCA Seminar – Part II
August 25, 2005

Chemonics International

One Solution to the Credit Challenge

DCA credit guarantees mobilize local capital and encourages private financial institutions to:

- reduce their risk perception to provide access to credit to underserved markets.
- reduce their excess liquidity.
- improve capacity to assess and manage risk.
- provide longer term lending.
- reduce inappropriate collateral requirements.
- offer market-based interest rates.
- invest in local development efforts in lieu of and/or in addition to USAID and other donors.

Why Credit Guarantees Instead of Grants?

Sustainability and Impact

•Lenders learn about lending to new markets, and will continue to do so in the future.

•Market demonstration effect causes growth of local credit markets.

•Competition creates more diverse and affordable credit.

Cost-Effectiveness

- Private lenders are putting their own capital at risk, and using their human and other resources.
- USAID can use a small portion of its budget for a guarantee, and more effectively use grant funds for capacity building and other activities that are not financially viable.

DCA Overview

- **Guarantees** – to cover partial credit risk of private lenders, rather than capital.
- **Another Tool** – DCA is a guarantee mechanism, rather than a separate program.
- **Leverage** - USAID achieves significant budget leverage.
- **Deeper Impact** - creating multi-layered impacts directly, and in the financial sector.
- **Sustainability** – through local commercial funding sources.
- **Symbiotic** – forges commercial partnership with the private sector to achieve development goals.

DCA Guiding Principles

- Mission Driven Initiative
- Must Support SOs
- Available for all USAID countries and sectors
- Private sector only
- True Private Sector Risk-Sharing
- Financially Viable activities
- Corrects credit market imperfections
- Creates "additionality"
- Creates demonstration effect
- Currency matching

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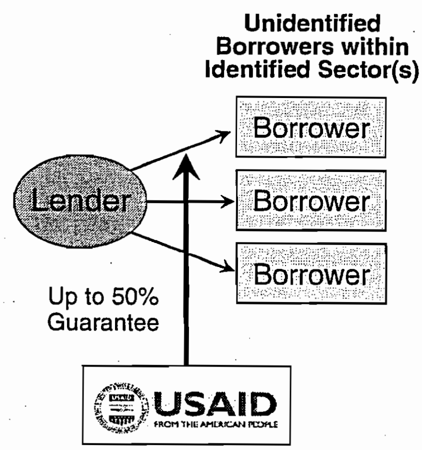
Structure 1 - Loan Portfolio Guarantee

- Provides up to 50% guarantee on principal for a series of loans to unknown qualifying borrowers.
- Lender(s) identified.
- Mission and Lender(s) use definition of "qualifying borrowers" in guarantee legal agreement.



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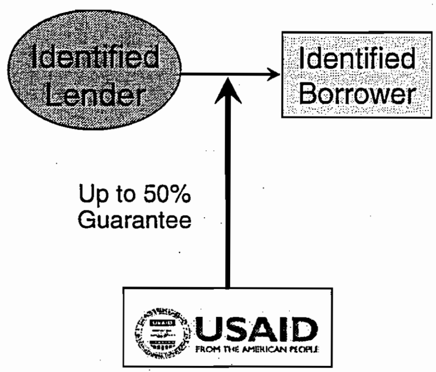
Structure 2 - Loan Guarantee

- Provides up to 50% guarantee on principal for a loan to a single borrower.
- Borrower identified.
- Lender identified.



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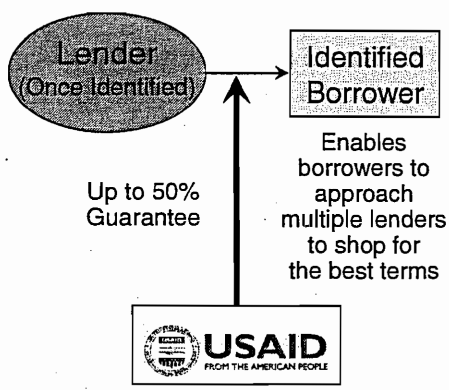
Structure 3 - Portable Guarantee

- Provides up to 50% guarantee on loan principal.
- Borrower identified.
- Borrower shops for best loan terms.
- Lender must meet minimum requirements – rating or CAMELS.



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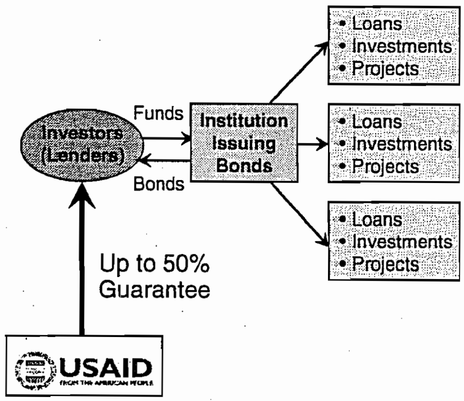
Structure 4 - Bond Guarantee

- Provides up to 50% guarantee on principal to bond purchasers.
- DCA strengthens the rating of bond issue.
- Stronger development impact – core Mission SOs + strengthened capital markets.



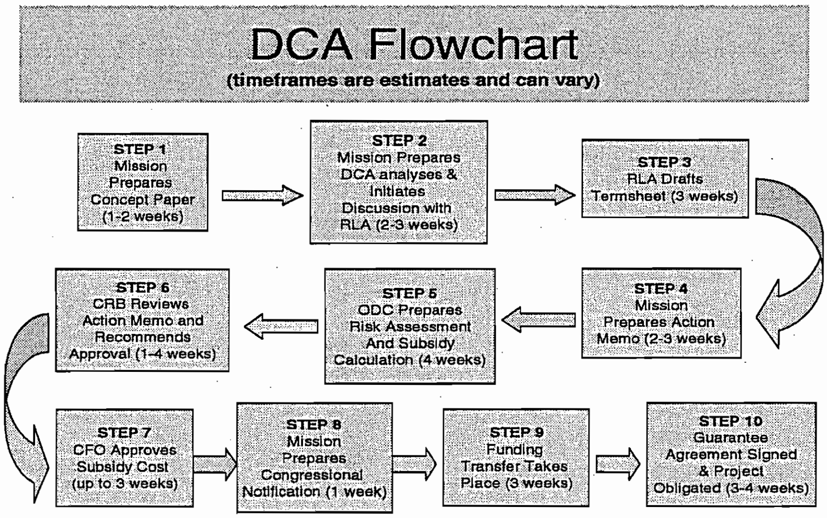
Structuring to Achieve Your Objective

Articulate your development objective(s)

- Stimulating Lending to a New Sector?
- Reducing Interest Rates?
- Reducing Collateral Requirements?
- Extending the tenor (term) of credit?

- Which one of the 4 DCA Tools (LG, PG, LPG, BG) best accomplishes your objective <u>AND</u> provides a demonstration effect?
- Consider partners and their strategic interests, financial market sophistication, macroeconomic conditions, etc.
- Risk Sharing Partners – consider size, mandate, experience, financial standing

DCA Activity Development



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Step 1 - Prepare Concept Paper

Mission develops a short Concept Paper and send it to their Regional Relationship Manager at USAID/Office of Development Credit. Concept Papers include:

- Description and Purpose of Project
- Linked SOs
- Economic Justification (market imperfections, additionality)
- Financial Institution Information (if available)
- Basic Anticipated Terms
- Preliminary Borrower Information

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Step 2 – Prepare Analyses for Action Package

Activity Description

- Description and purpose of project
- Background and Rationale
- Collaboration with Other Parties
- Financial Intermediary (Lender)
- Borrower(s)
- Intended Beneficiaries (if different than borrowers)
- Related or planned technical assistance

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Step 2 – Prepare Analyses for Action Package

Economic Justification

- Does the proposed activity address in-country market imperfections?
- Does the DCA Guarantee supersede any other private sources of financing?
- Will USAID be acting as the "Guarantor of last resort"?
- How does the activity create "additionality"?

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Step 2 – Prepare Analyses for Action Package

Financial Viability Analysis (now typically done by ODC)

1. Are the assumptions reasonable?

2. Are cash flows positive? Will this activity generate enough income to:
   -service debt (pay interest),
   -repay loan principal,
   -cover operating costs, and
   -maintain sufficient reserves?

3. Is the Net Present Value (NPV) positive?

4. Will the activity produce an adequate return to investors? Is the Internal Rate of Return (IRR) positive?

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Step 2 – Prepare Analyses for Action Package

Risk Assessment – Information compiled by Mission but Assessment conducted by ODC

- Past 3 years audited financial statements
- Un-audited interim financial statements to date
- Articles of Incorporation or similar
- List of registered owners by name and ownership %
- List of principal officers and directors and CVs
- Organizational Chart
- 5-year Business Plan
- CAMELS rating or equivalent for financial institutions

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Step 3 – RLA Drafts Term Sheet

Initial Termsheet Prepared and Distributed

- USAID Regional Legal Advisor prepares an initial term sheet and begins to construct legal agreement.
- Lender reviews terms and comments.
- ODC attorney and regional relationship manager can provide assistance.

Best Practice: Involve the RLA early in the process!

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Step 4 – Mission Prepares Action Package

1. Action Memo
2. Project Information Sheet
3. Activity Description
4. Economic Justification
5. Risk Assessment
6. Subsidy Cost Calculation
7. Financial Statements and Additional Information

This package (along with the Monitoring Plan) will be submitted to the Credit Review Board.

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Step 4 – Mission Prepares Action Package

<u>Monitoring Plans</u> - Each DCA Activity must have 2 types of Monitoring Plans:

- <u>Development Monitoring Plan</u> – is similar to monitoring grant or contract activities, and assigns responsibilities to Mission personnel or implementing partners to monitor DCA over life of activity.
- <u>Financial Monitoring Plan</u> – ODC (with help from implementing partners) oversees portfolio and is responsible for ensuring that fees are paid, reporting requirements are met, documenting completion of conditions precedent (when applicable), making site-visits, and closing out the facility upon expiration.

Step 5 – Risk Assessment

Using the information the Mission has collected, the ODC conducts the risk Assessment.

Risk Assessments analyze 4 categories of <u>Credit Risk</u> which are weighted to produce the **WARF**:

WARF = Weighted Average Risk Factor

Step 5 – Subsidy Calculation

The Mission's Subsidy Cost, for a DCA activity, is the expected value of all incoming (fees received) and outgoing (claims paid to DCA partners) money during the life of the guarantee. Subsidy, paid by the sponsoring Mission, is similar to a loan loss provision or insurance premium.

50% of Estimated Loan Defaults	*Less*	Estimated Fees Paid to USAID	=	Subsidy Cost
Cash Outflow		**Cash Inflow**		**Cost to USAID**

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Step 6 – CRB Review

The Credit Review Board will review the Action Package in Washington, DC and recommend CFO approval.

DCA Activities are typically presented by one of the following :

- Mission Director or Other Mission representative
- Bureau representative
- Country Desk Officer

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Part I: Quiz Questions

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Chemonics International
DCA Seminar

REVIEW QUESTIONS

1. **Match the following guarantee types with their definitions:**

_______ Bond Guarantee _______ Loan Portfolio Guarantee _______ Portable Guarantee _______ Portfolio Guarantee	a. DCA Guarantee that provides an entity with a commitment to cover a portion of its loan from a bank yet to be identified to help that entity gain access to credit.
	b. DCA guarantee for a loan provided by one financial institution to one borrower
	c. DCA guarantee that covers partial risk of investors purchasing bonds.,
	d. DCA guarantee that partially covers the risk for a group of loans from a single lending institution.

2. **Which entity is responsible for paying the subsidy cost for a DCA guarantee?**

   a) Financial Institution (Guaranteed Party)
   b) The Borrower
   c) USAID/Washington
   d) The Mission (Operating Unit)

3. **Who has overall responsibility for DCA financial monitoring?**

   a) Office of Development Credit
   b) The Mission
   c) The Guaranteed Party
   d) The TA project that helped the Mission develop the Action Package

4. **True of False? The use of DCA should be driven by USAID/Washington.**

5. **True or False? DCA is primarily used by sovereign borrowers.**

6. **True or False? DCA prefers to base its guarantees in US dollars in order to help local financial institutions build up their foreign currency reserves.**

7. **USAID will cover up to ____ of a lenders risk.**

   a) 25%
   b) 40%
   c) 50%
   d) 75%
   e) 99%
   f) 100%

8. **Which Chemonics projects have integrated a DCA Guarantee?**

a) Uganda SPEED I & II & Rural
b) Egypt Secondary Cities
c) Jordan AMIR II
d) Afghanistan Achieving Food and Livelihood Security
e) a, b, c
f) b, c, d
g) all of the above

9. Which of the following technical areas would DCA be least appropriate for (choose one)?

a) Agribusiness
b) Competitiveness
c) Health
d) Microfinance
e) Rule of Law
f) Education
g) Water
h) Housing
i) Environment
j) Municipal Development

10. What kinds of tools can be found in the Chemonics DCA resource center (electronic & hard copy)?

a) DCA Country Matrix
b) DCA New Business Tracker
c) G-Trip Helpers
d) Consultant Rosters
e) DCA Deal Documents
f) Sample Scopes of Work
g) Training Materials
h) DCA Corporate Capabilities
i) a, b, c, d, e
j) all of the above

Extra Credit

11. What does "financially viable" mean as it relates to guarantees?

a) The project demonstrates that the country's finance and banking sector is stable.
b) The project demonstrates that there are sufficient cash flows generated by the project to meet all operational and debt-related costs.
c) The project demonstrates that a previous DCA guarantee in the same sector but a different country was profitable for the lending institution.

Part I: Quiz Answers

Chemonics International Inc., 1133 20th St. NW, Washington, DC 20036
Telephone 202.955.3300, Fax 202.955.3400, www.chemonics.com

Chemonics International
DCA Seminar

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TAB 12: FINAL STEPS
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Chemonics International Inc., 1133 20th St. NW, Washington, DC 20036
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Presentation: DCA Activity Development: Final Steps

DCA Activity Development: Final Steps

August 25, 2005

Chemonics International

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Congressional Notification

- Congress is notified in advance of all funds transfers under the Development Credit Authority – WHY?
- The Congressional Notification (CN) is prepared by the appropriate USAID Bureau/Mission and indicates the amount of the transfer and a brief description of the DCA guarantee activity.
- The CN is cleared by the appropriate USAID Regional Bureau and forwarded to Legislative and Public Affairs (LPA) for final approval and submission to the U.S. Congress.
- After the conclusion of a 15-day waiting period without Congressional objection, the CN expires. The USAID Regional Bureau notifies EGAT/DC and PPC/RA.

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Congressional Notification - FYI

- A CN can be submitted to Congress before CRB/CFO approval of the DCA Action Package.
- The amount of the transfer described in the CN can be an (over)-estimate.
- The CN process can be avoided by including DCA estimates in the annual Congressional Budget Justification (CBJ). Advance planning saves time!

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Credit Review Board (CRB)

- The signed DCA Action Package and Monitoring Plan are distributed to the CRB.
- At Meeting:

-Mission presents background information

-EGAT/DC presents risk analysis

-CRB votes on whether to recommend the deal to USAID's CFO

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CRB Responsibilities

- Review each Subsidy Cost calculation, recommend approval to CFO.
- Recommend policies and procedures to ensure financial soundness of all USAID credit programs.
- Monitor financial performance of DCA activities.

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Why Does USAID Have a CRB?

- Federal Credit Reform Act (FCRA) – Budget authority.
- OMB oversight of all programs operating under FCRA.
- OMB Circular requires Credit Review Board to coordinate credit management.

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Presenting a DCA Activity to the CRB

Suggested format:

1. Acknowledgement of CRB, thanks from the Mission Director
2. Justification for why the Mission wants to do this guarantee
3. Details of the guarantee
4. Economic Justification
5. Q&A
6. Risk assessment (done by risk analyst)
7. Q&A for risk analyst

Keep it SHORT!!! Sections I-IV should take no longer than 5 minutes.

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Presenting a DCA Activity to the CRB

Justification

- Explanation of how the proposed guarantee fits into the Missions strategy
- Description of what is the Mission is trying to achieve
- Overview of how the guarantee will be supported by technical assistance

Details

- Describe the borrower(s) and the lender
- State the authorized amount and maximum cumulative disbursement, if different
- Guarantee percentage
- Duration of the guarantee

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Top 10 FAQs from the CRB

1. Why does this bank need a DCA guarantee if the targeted borrowers are their normal client base?
2. What is USAID's relationship with the bank?
3. What is the additionality of this deal?
4. Why are we doing an XX-guarantee in a country without an XX SO?
5. Why is the bank interested in entering this market?
6. Is the bank moving away from their core business of lending in sector XX?

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Top 10 FAQs from the CRB

7. Are you confident that the bank is a good risk-sharing partner?
8. Are you confident the lender will make loans purely based on commercial considerations (as opposed to lending based on political considerations)?
9. Are you confident that the bank will actually make the loans contemplated under a USAID Guarantee Agreement?
10. Is there any Mission TA program to help ensure the potential borrowers will be in good enough shape to get loans from the bank or is there a TA program that works with the banks to help identify good borrowers?

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Between CRB Approval and Obligation

- USAID's Credit Review Board (CRB) approves the DCA Action Package, including the DCA subsidy calculation.
  - CRB approval is a recommendation that USAID's Chief Financial Officer (CFO) approve the DCA Action Package.
- USAID's CFO signs the DCA Action Memo upon the recommendation of the CRB.
- EGAT/DC provides copies of the approved Action memorandum to the USAID Mission SO Team Leader or Program Officer and to the USAID Mission Controller.

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The Transfer Process Concludes

- The USAID Mission records the obligation of the DCA funds at the signing of the guarantee agreement - <u>Time to Celebrate</u>!
- Mission sends scanned copies of full guarantee agreement (with Controller's stamp) to EGAT/DC.

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DCA Legal Agreement

- Guarantee agreement between USAID and the Lender regardless of DCA guarantee structure.
- Obligating Document.
- 16 page agreement includes a 3-page Term Sheet + Implementation Templates.

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Legal Agreement Best Practices

- Get RLAs involved early.
- Meet with banks in person and build trust.
- Explain, re-explain and clarify provisions to banks to ensure mutual understanding.
- Circulate term sheet and draft agreement as soon as possible.

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Legal Agreement: Term Sheet

- Maximum Authorized Portfolio Amount
- Maximum Cumulative Disbursements
- Guarantee Ceiling
- Qualifying Borrowers
- Origination Fee
- Utilization Fee
- Guarantee Periods

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True Risk-Sharing (Articles III & IV)

- <u>Reasonable</u> collection efforts must be pursued before submitting claim.
- Lender must show loss on its balance sheet.
- Recoveries must be shared with USAID.

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Legal Agreement FAQs

- What is negotiable in the Guarantee Agreement?
  (consider risk issues, statutory issues, policy issues and development issues)

- DCA 50% guarantee of a $2 million loan. Lender has $1 million cash collateral from the borrower. If the borrower goes bankrupt and defaults on the entire $2 million, how much will USAID pay the lender?

- Six months after USAID pays a claim, the Lender receives $200,000 from the bankruptcy court from the proceeds of the liquidation of the borrower's assets. What, if anything, do they owe USAID?

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Congressional Notification (CN) from Kenya

CBJ Narratives

"Describing DCA projects including the DCA funding level in a country program's narrative of the FY 2006 CBJ is sufficient for notification purposes, assuming that a country is not subject to country restrictions including special notification requirements."

Increase Private Sector Growth ($7,935,000 DA). USAID will continue to support cooperative development in [country]. USAID will also continue to provide technical support and rural lending by transferring $1,000,000 to the Development Credit Authority (DCA) for loan guarantees to agricultural producers, pastoralists, and agricultural enterprises, and develop output markets for the targeted agricultural sectors of coffee, horticulture, food grains, and livestock products. DCA loan guarantees for rural credit will also be expanded and broadened into small enterprise lending, potentially adding one additional private bank. A pastoralist development program will improve the productivity and marketing of cattle, sheep and goats in certain remote, arid areas of the country.

Strengthen Financial Sector's Contribution to Economic Growth ($466,000 prior-year DCA; $1,000,000 DA). USAID will support the implementation of [country's] Financial Sector Strategic Plan (FinSSP) by providing technical assistance, furnishing a long-term advisor to the Bank of [], and by funding activities to improve the efficiency and development impact of private transfers to [country]. Through the Development Credit Authority (DCA), USAID will provide loan guarantees for selected, productive loans to be issued by the Global Development Alliance partner [Bank].

Strengthen Financial Sector's Contribution to Economic Growth ($993,000 DA; $525,000 DCA; $300,000 ESF). USAID will build capacity of the microfinance industry (MFI) by creating an industry-level enabling environment that promotes MFI growth and product development, setting industry standards, credit reference bureaus. Through the DCA, there will be increased access to growth capital to expand financial services to medium and small enterprises, including women entrepreneurs and smallholder farmers in the maize, horticulture and dairy sectors. Principal contractors and grantees: Development Alternatives, Inc (DAI) (prime), Association of Microfinance Institutions (AMFI), Cooperative Bank of [country], National Industrial Credit Bank.

Strengthen Financial Sector's Contribution to Economic Growth ($782,000 DA). USAID has a contract for technical assistance for rural financial sector expansion and intends to contribute $200,000 to the Development Credit Authority (DCA) which will leverage up to $8 million in commercial financing to rural enterprises. Principal contractor: Deloitte-Touche (prime).

Increase Private Sector Growth ($2,333,080 DA). The USAID program will foster public-private partnerships to increase competitiveness in selected sectors, and to enhance opportunities for investment, trade and access to critical financial services. Technical assistance efforts, particularly in post-harvest processing and microfinance, will specifically target female farmers, as they are the primary producers of agricultural commodities in [country]. Through a public-private partnership with Shell Oil Co. and the International Institute of Tropical Agriculture, USAID will enhance processing opportunities at the community and agro-industrial level for cassava products, including livestock feed, starch and ethanol. In addition, USAID will provide technical assistance to [country's] struggling textile enterprises to become more competitive and benefit from the trade provisions of the African Growth and Opportunity Act. In addition, USAID anticipates transferring $500,000 to the Development Credit Authority (DCA) to leverage funding for a portfolio of loans to women's cooperatives, farmers' associations and private sector entrepreneurs to establish up to 25 value-added production and processing enterprises in aquaculture, cassava, rice or other commodity sectors. Principal contractors and grantees: International Institute of Tropical Agriculture, Citizens International, and Chemonics International (primes); and others to be determined.

FY 2005 Program: Strengthen Financial Sector's Contribution to Economic Growth ($424,000 DA). Meeting targets for [country's] basic needs requires leveraging significant private domestic capital. USAID is reserving $300,000 for Development Credit Authority (DCA) guaranties, to share and manage the risk of large-scale lending to low-income markets. USAID's alliances with U.S. private financial advisory firms and its technical support to a [country] public-private deal-making organization, are assisting up to 20 local governments to access fledgling capital markets. USAID is developing new financial products and delivery mechanisms that will strengthen capital markets to increase private investment in basic services for slum-dwellers, which will help [country] banks to reach housing and infrastructure investment targets of $9.8 billion over the next five years. A USAID-sponsored public-private alliance is supporting these investment goals and is assisting in the development of a municipal bond market.

USAID is supporting the development of microenterprises in the construction and agro-processing sectors in order to help the very poor to access the resources they require to improve competitiveness and operate in the formal private sector economy. In addition, USAID anticipates transferring $150,000 to the Development Credit Authority (DCA) to expand access to finance for small firms. To address the sensitive issue of land tenure, USAID is continuing to support the expansion of "willing seller-willing buyer" sales between large commercial enterprises (farms and agro-processors) and their workers. While USAID will assist with just 16-20 additional large agriculture enterprise sales in FY 2005, these sales provide clear proof that such transactions are possible and feasible. USAID funds also continue to support research and outreach on biotechnology in support of small farmers and agribusinesses.

Strengthen the Financial Sector's Contribution to Economic Growth ($1,700,000 DA; $1,500,000 DCA). USAID will support the expansion of rural financial services and savings mobilization in rural areas, and will expand commercial credit through a Development Credit Authority program with approximately five commercial banks and one microfinance deposit taking institution (MDI). Activities will promote an increase in access to financial services for both agricultural and non-agricultural enterprises.

Strengthen Financial Sector's Contribution to Economic Growth ($1,095,000 DA, $211,000 DCA). To increase access to finance, USAID undertakes concerted efforts to identify and test innovative financial options through the private sector and other stakeholders. A key focus is the expansion of the credit guarantee scheme to back up commodity warehouse receipts. Activities also promote credit and savings through outgrower companies and producer groups, insurance, and forward contracts. USAID funds help beneficiaries in small-scale agriculture and those involved in natural resources production groups to become competitive through a range of business development services, including exposure to information technology.

CN from HAITI

CN #308
August 4, 2004

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
ADVICE OF PROGRAM CHANGE

PROGRAM	Haiti
OBJECTIVE TITLE	Sustainable Increased Income for the Poor
OBJECTIVE NUMBER	521-001
FY 2005 CBJ REFERENCE	Annex IV, pp. 156-158 Dept. of State CN, dated 5/21/04
APPROPRIATION CATEGORY	Economic Support Funds (ESF) Development Assistance (DA) Development Credit Authority (DCA)
LIFE OF OBJECTIVE FUNDING	$186,445,000 (ESF) $ 24,985,000 (DA) $ 750,000 (DCA)
INTENDED FY 2004 OBLIGATION	$ 2,000,000 (ESF) $ 5,769,000 (DA) $ 750,000 (DCA)

This is to advise that USAID/Haiti intends to transfer $750,000 of Economic Support Funds (ESF) to the Development Credit Authority (DCA) account for the "Sustainable Increased Income for the Poor" objective in Haiti. Previously, $2,750,000 of ESF was notified in Department of State's omnibus Haiti notification dated May 21, 2004. USAID/Haiti will manage this objective.

The purpose of this objective is to stimulate economic growth, income and employment generation by increasing sustainable agricultural income, strengthening farmers groups, and empowering small and micro-enterprises through increased lending to a diverse range of economic sectors in Haiti such as agriculture, trade, construction, agribusiness, manufacturing, arts and crafts.

Through a DCA mechanism, USAID will execute two loan portfolio guarantee (LPG) agreements with selected financial institutions: Sogebank, a local commercial bank and SOFIHDES, a development finance corporation. The Sogebank guarantee will have a maximum cumulative disbursement of US$ 3 million. USAID will guarantee up to fifty percent of loan defaults. The second bank guarantee with SOFIHDES will have a maximum cumulative disbursement of $2 million. USAID will guarantee up to fifty percent of loan defaults. The LPGs will stimulate increased access to working capital for targeted borrowers through risk sharing with conservative local banks. The targeted sectors are small, micro and medium sized businesses working in light manufacturing, trade, agriculture, tourism, agribusiness, construction, technologies and service industries.

Attachment: Data Sheet

Data Sheet

USAID Mission:	Haiti
Program Title:	Economic Growth
Strategic Objective:	521-001
Planned FY 2004 Obligation:	$5,769,000 DA;$2,000,000 ESF;$750,000 DCA
Prior Year Unobligated:	$0
Year of Initial Obligation:	FY 1997
Year of Final Obligation:	FY 2006

Summary: USAID's economic growth program contributes to increasing income and employment in diversified Haitian enterprises in local, regional, and international markets. The program works with farmers, small, micro and medium-scale enterprises to improve their productive capacity and increase employment and income. Activities are aimed at improving the marketing and processing of agricultural production, construction, export-oriented trade and manufacturing.

Inputs, Outputs, Activities:

FY 2004 Program:
Initiate short term job creation to build infrastructure and spur growth ($4,000,000 DA). USAID will provide training and job opportunities to marginalized urban youth to clean up the urban environment. In addition, these youth will receive training in the construction trade and will assist in the rehabilitation of basic infrastructure such as schools, irrigation canals and roads. Other short term employment will be in critical areas of public services such as garbage collection, water and sanitation, and road repair. Principal contractors are to be determined.

Increase employment and productive investment ($2,000,000 ESF; $750,000 DCA; $1,769,000 DA). USAID will provide financial assistance to help improve the productive capacity of Haitian businesses, with an emphasis on small, micro and medium-scale enterprises. Activities will help the financial sector stimulate job creation and productive investment through increased provision of credit to Haitian businesses operating in tourism, agriculture, manufacturing, construction, arts and crafts. USAID will use DCA funds to increase access to working capital for targeted borrowers through risk sharing with local commercial banks. In addition, USAID will provide short-term experts to work with financial institutions in order to build the institutional capacity to negotiate and implement loan agreements. Principal contractors include: Foundation for International Community Assistance, Development Alternatives, Inc., Haitian Development Finance Corporation, Aid to Artisans (ATA), and Florida Association of Voluntary Agencies for Caribbean Action, Inc. (FAVACA).

Performance and Results: Economic growth is USAID's most successful area of impact in Haiti. Important results include a 20.4% revenue increase among target small farmers (FY 2002/2003), and the surpassing of annual export sales targets ($984,000) by $100,000 (FY 2003). Long-term USAID investment in the coffee sector has resulted in a high-quality premium coffee brand, owned directly and exclusively by small hillside farmers who receive almost $3.00 per pound (considerably more than world commodity prices of $0.47 per pound). USAID-assisted micro-finance institutions (MFIs) and small-medium enterprises (SMEs) continue to exceed expectations. Outstanding MFI loans increased by 26% last year, four of the eight principal USAID-supported MFIs fully met cost recovery, and two other MFIs approached 80% cost recovery. With P.L. 480 Title II support in FY 2003, over 3,000 small-scale farmers adopted improved agricultural techniques during this period, and over 2 million tree seedlings were produced and distributed to farmers. In FY 2003, USAID-sponsored artisans signed export contracts with several major international firms, including Pier 1 Imports and T.J. Maxx. ATA-supported sales increased more than 75% last year, and are projected to increase another 25% in FY 2004. Through June 30, 2003, the cumulative number of artisan associations or enterprises involved in USAID's program activities was 197, involving more than 3,023 Haitian artisans.

US Financing in Thousands of Dollars

Haiti

521-001 Economic Growth	DA	ESF	DCA
Through September 30, 2002			
Obligations	2,986	91,162	0
Expenditures	2,986	76,247	0
Unliquidated	0	14,915	0
Fiscal Year 2003			
Obligations	7,690	-47	0
Expenditures	1,030	12,383	0
Through September 30, 2003			
Obligations	10,676	91,115	0
Expenditures	4,016	88,630	0
Unliquidated	6,660	2,485	0
Prior Year Unobligated Funds			
Obligations	0	0	0
Planned Fiscal Year 2004 NOA			
Obligations	5,769	2,000	750
Total Planned Fiscal Year 2004			
Obligations	5,769	2,000	750
Proposed Fiscal Year 2005 NOA			
Obligations	2,879	2,000	0
Future Obligations	5,661	91,215	0
Est. Total Cost	24,985	186,330	750

Talking Points for Mission's CRB Presentation

Suggested Format for CRB Presentation (Parts 1 - 5 are yours.)

Your part should NOT be longer than 5 minutes. The bulk of the presentation will be on the risk assessment. Typically, the majority of questions are on the risk assessment. However in the past, I have heard CRB members ask development-oriented questions, such as the ones below. I think that you cover most of these questions in the action package. If you find that any of them are stumping you, let me know and I will brainstorm with you to come up with the answer.

1. Acknowledgment of CRB, thanks from the Mission Director

2. Justification for why the Mission wants to do this guarantee

- *What is the Mission trying to achieve?*

The proposed guarantee will support increased SME access to working capital, and medium and long term financing for the purchase of equipment and technology, with an emphasis on term lending. Through more accessible working capital, targeted capital investment, and business development assistance, SMEs will increase their contribution to national economic growth by expanding their production, improving their efficiency, and hiring more employees.

- *What group does the Mission want to help with the guarantee?*

The DCA facility will provide the bank with a partial guarantee on multiple loans made to SMEs in all sectors and in all geographic areas of Jordan.

- *How does the proposed guarantee fit into the Mission's strategy?*

The US Government's Economic Development Goal in Jordan is Broad-based, market-oriented growth accompanied by expanding investment, improving standards of living and enhanced economic opportunities for all Jordanians. USAID/Jordan's SO Number 10: Increased Opportunity for Jordanians supports three intermediate results:

1. Increased access to business services;
2. More effective identification and implementation of policy reforms; and
3. An improved environment for sustained policy reform.

This DCA guarantee supports IR1, increased access to business services.

- *What type of technical assistance will be provided in support of the guarantee?*

Four USAID-supported capacity building initiatives complement and will reinforce the positive impact of this guarantee:

- AMIR's FMD and ECI Components
- National Linkages Program (SME Capacity building)
- FOR-Jordan (SME and Banker Training)

- JUSBP (BDS center)

Additionally the EU-funded EJADA SME and Banker TA program is complementary to the DCA guarantee facility.

3. Details of the guarantee: borrower/lenders, $ amount, duration, etc.

- *Why is this loan portfolio guarantee limited to only one bank?*

The Mission is interested in establishing guarantees with multiple partner lenders for SME lending to stimulate competition in the market and encourage other banks to move into SME lending. Bank of Jordan is the first of a few banks that may work with USAID in this capacity, and follow up work to develop loan portfolio guarantees with another 2 banks is planned for early this fall.

- *How many loans, and what is the average size of loan BOJ is expected to place under coverage?*

It is anticipated that BOJ will be able to place 25 loans with an average size of USD 200,000 under coverage with this facility.

- *Why is the duration of the guarantee period set at 8 years?*

The guarantee duration is for 8 years to encourage the bank to place multiple loans with a 5-year tenor under coverage over a longer period.

4. Explanation of additionality provided by guarantee and explanation of the market imperfections that will be corrected.

- *Would the bank lend to SMEs if the guarantee was not offered? If so, how will the bank change its lending terms because of the guarantee?*

The bank is doing some very limited lending to SMEs at this point, principally offering overdraft facilities, letters of credit, and short term loans for working capital. With the guarantee and reinforcing capacity building through the various technical assistance efforts already mentioned, the bank will feel more comfortable expanding its financial products and services to offer longer tenor loans (up to 5 years) and consider loan applications from SMEs that do not have sufficient traditional collateral to pledge as security for their loans since the DCA guarantee will offer a collateral substitute. Once they become comfortable with these new customers, it is probable the bank would offer them a wider range of financial services.

Does this DCA guarantee overlap at all with the EU funded guarantee program?

EJADA offers a Loan Guarantee Scheme run by the Jordan Loan Guarantee Corporation. Under this scheme up to 70% of the lending risk of banks which lend to SMEs is covered by a special fund (up to €6 million) funded by EJADA. Eligible loans can go up to JD 428,500 (est. USD 600,000) for plant and equipment investment only. While DCA guaranteed loans may be used for plant and equipment upgrades, they may also be used for other purposes that might be more suitable to a services sector enterprise than the EJADA guarantee.
The EJADA guarantee program is much narrower in its qualifying borrower pool, limiting lending to the manufacturing and services sectors, fixed asset purchase loans only, and the tenor must be between three to eight years, whereas the DCA guarantee offers the bank more flexibility in determining the loan tenor appropriate for a particular business activity.

Bank of Jordan has only placed 4 loans under EJADA's guarantee facility to date even though it offers a higher coverage percentage with lower fees than the DCA guarantee, due to the extra administrative processing it requires to have a second credit analysis and decision provided by the EJADA technical assistance team. In comparison, the DCA activity leaves the credit decision process to the bank to help them move up the learning curve more quickly and therefore Bank of Jordan is eager to work with USAID through this DCA guarantee facility.

5. **Q&A** - Illustrative Questions from CRB

- *How does the Mission define SMEs?*

Enterprises with 5-250 employees.

- *Are there certain sectors that will be targeted by Bank of Jordan?*

SMEs operating in any sector of the economy in Jordan will be eligible under the qualifying borrowers parameters.

- *Is there a geographic focus to the guarantee?*

SMEs operating in any part of Jordan will be eligible under the qualifying borrowers parameters.

- *Why does Bank of Jordan need a DCA guarantee if its normal client base is SMEs?*

While Bank of Jordan does have some current SME clients within its commercial credit department accessing short term credit, the majority of its customers are not SMEs, nor can they access longer term credit to expand their businesses, which this guarantee will encourage Bank of Jordan to offer.

- *How does the guarantee fit into the Mission's overall program/strategy?*

See responses on Mission strategy and other USAID technical assistance programs above in Number 2.

- *What is the value added of the guarantee?*

See additionality response above in Number 4.

[From Alison: You might want to add here that the fees are relatively high to help guard for additionality. In other words, the bank will presumably not want to use the guarantee for "safe" clients because the guarantee is useless if there are zero defaults and they are paying a relatively high fee for the coverage. Thus if the bank expects zero defaults based on past repayment history, then it is not to their advantage to apply the guarantee to these borrowers.]

- *What sort of technical assistance will the mission provide?*

Capacity building and technical assistance will be provided to SMEs and the bank through ongoing programs to encourage utilization of the guarantee, and help businesses increase competitiveness. See response under Number 2.

- *What are backward and forward linkages?*

Backward linkages are inter-firm relationships, where large corporations regularly purchase intermediate goods and services as production inputs from one or more local SMEs in the production chain. The National Linkages Program (NLP) facilitates backward linkages to assist SMEs grow and access the international market. NLP is demand-driven, focusing on the exporters' input needs and then assisting SMEs in becoming accredited suppliers to these large companies, thus creating the backward linkage.

6. **Risk assessment (done by Kathleen Wu and/or Bharat Bhargava)**

7. **Q&A for risk assessment**

8. **CRB votes on deal**

Sample DCA Legal Agreement

GUARANTEE AGREEMENT
Guarantee No: XXX-DCA-XX-XXX

Between

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT;

and

[ABC Bank]

Dated ____________

Appropriation:
Budget Plan Code:
Strategic Objective:
Amount Obligated:
Guarantee Number:

Date: __________ Fiscal Year: 200_

GUARANTEE AGREEMENT

[insert name of signatory]
[Insert title – e.g., general manager]
[Insert name of the guaranteed party]
[insert address]

Subject: Loan Portfolio Guarantee
Guarantee No. DCA-**[insert guarantee no. –xxx-DCA-xx-xxx]**

Dear **[insert name]**:

The U.S. Agency for International Development (USAID) on behalf of the United States of America hereby agrees to partially guarantee certain Qualifying Loans (as hereinafter defined) made by [ABC Bank] (the "Guaranteed Party") in accordance with the provisions of the following attached documents: (1) Guarantee Term Sheet, and (2) Standard Terms and Conditions. These two attached documents, together with this letter, constitute the guarantee agreement (the "Agreement).

Please confirm your acceptance of the terms of the Agreement by signing in the place indicated below and returning two fully executed copies to USAID.

Sincerely,

[insert name]
Mission Director
USAID/______

Accepted and agreed:

____
By:
[Insert Title of Signatory]
[Insert Name of Guaranteed Party]
Date: ____________

Attached: Attachments 1 and 2, as stated

ATTACHMENT 1 (GUARANTEE TERM SHEET)

GUARANTEE PURPOSE. The USAID guarantee is intended to strengthen the Guaranteed Party's ability to finance loans to [small and medium enterprises in ______, thereby stimulating economic growth.

THE GUARANTEE. To induce the Guaranteed Party to make "Qualifying Loans" to "Qualifying Borrowers" for "Qualifying Projects," each as defined below, the Parties agree to the following terms:

1. **Maximum Authorized Portfolio Amount:** The aggregate principal amount of all Qualifying Loans covered under the Agreement at any one time shall not exceed the [local currency] equivalent of Ten Million U.S. Dollars (US $10,000,000).

2. **Maximum Cumulative Disbursements:** The maximum cumulative amount of all loan disbursements made under Qualifying Loans shall not exceed [local currency] equivalent of Ten Million U.S. Dollars (US $10,000,000). No loan disbursement shall be eligible for coverage under the Agreement unless the amount of such disbursement, together with all previous disbursements made under Qualifying Loans, does not exceed the local currency equivalent of Ten Million U.S. Dollars (US $10,000,000.

3. **USAID Guarantee Percentage:** Fifty (50%) percent of the Guaranteed Party's net losses of principal with respect to Qualifying Loans. (See Section 4.01 of the Standard Terms and Conditions for claim requirements).

Guarantee Ceiling (Maximum USAID Liability): Five Million U.S. Dollars (US $5,000,000).

5. **Final Date for Placing Qualifying Loans under Coverage:** 180 days prior to the Coverage Expiration Date.

6. **Coverage Expiration Date:** five (5) years from the date of the Agreement.

7. **Final Date for Submitting Claims:** 180 days after the Coverage Expiration Date except as set forth in Article IV of the Standard Terms and Conditions attached hereto, provided that no claims may be submitted in connection with any default on a loan that occurs after the Coverage Expiration Date.

8. **Currency of Qualifying Loans Placed Under Guarantee Coverage:** [local currency].

9. **Final Qualifying Loan Maturity Date:** For each Qualifying Loan, the maturity date for the entire principal amount of such Qualifying Loan shall be no later than 48 months from the date of the initial disbursement of the Qualifying Loan, unless otherwise agreed by USAID.

10. **Currency of Guarantee Payment:** [local currency]

11. **USAID Guarantee Fees:**

11(a). **Origination Fee:** One percent (1%) of the Guarantee Ceiling, [which is Fifty Thousand U.S. Dollars ($50,000)].

11(b). **Utilization Fee:** One-half of one percent (0.50%) per annum of the average outstanding principal amount that is guaranteed by USAID. This amount is to be calculated by taking the USAID

Guarantee Percentage (50%) of the average of the total ending balances of all Qualified Loans at the end of the two most recent Guarantee Periods and then multiplying such amount by one-half of one percent (0.50%) per annum. The fee is payable semi-annually, as billed.

12. **Currency of Fee Payment:** [local currency or U.S. Dollars].

13. **Guarantee Periods:** The first Guarantee Period will commence upon the date of the Agreement and end on March 31, 200__. Subsequent Guarantee Periods will consist of each six month period, beginning with the six month period from 04/01/200__ to 09/30/200__ and the final Guarantee Period will commence 04/01/200__ and end on the Coverage Expiration Date.

CRITERIA FOR QUALIFYING LOANS. In addition to the criteria set forth in the Standard Terms and Conditions, Attachment 2, a "Qualifying Loan" is one made to a "Qualifying Borrower" for a "Qualifying Project", each as defined below:

14. **Qualifying Borrowers:** [small and medium-sized enterprises (SMEs),], established under [country] law, that are private enterprises [in [insert relevant sectors]].

15. **Maximum Cumulative Principal Amount of Qualifying Loans Made To Any One Qualifying Borrower:** The [local currency] equivalent of U.S. $2,000,000. A Qualifying Borrower includes any Affiliate of that borrower, including parent or subsidiary companies having the same or substantially similar ownership as such borrower. Any question regarding who is a Qualifying Borrower may be resolved in consultation with USAID, and USAID may waive in writing this restriction on loans to Affiliates.

16. **[Qualifying Projects:** Investments designed to encourage growth of Qualifying Borrowers in [insert] sectors].

17. **True Risk Sharing by Guaranteed Party:** In order to ensure that there will be true risk sharing between USAID and the Guaranteed Party, no Qualifying Loan shall be eligible for coverage under the Agreement if more than fifty percent (50%) of total payments of principal on such Loan is guaranteed by a government or international donor organization, including USAID.

18. **Payment Instructions:**

Unless otherwise instructed in writing by USAID:

(1) U.S. Dollar payments to USAID shall be made directly to the U.S. Department of Treasury's account with the Federal Reserve Bank of New York via electronic funds transfer for further credit to USAID.

The following information shall be included in the wire transfer instructions:

Federal Reserve Bank of New York ABA# 021030004
33 Liberty Street, New York, NY 10045
U.S. Department of Treasury - Type Code 15 (for banks outside the United States)
USAID Agency Location Code (ALC) 72000001
Reference: USAID a/c 72X4266, bank name (to be inserted),
Guarantee No: [Insert DCA Guarantee Number].
Type of Payment: [Origination Fee]/[Utilization Fee]/[Post-Claim Recoveries]

(2) Local currency payments to USAID shall be made directly to the USAID Controller or USAID Cashier in-country via check, applying the same reference number and guarantee number as stated above. Such reference number and guarantee number are "USAID a/c 72X4266, [**insert guarantee number**]".

18. **Address for Notices:**

USAID:

U.S. Agency for International Development
[Mission/Operating Unit Address]
[Tel:]
[Fax:]
Attn: Mission Director

A copy of each such notice to USAID shall also be sent by mail or facsimile to:

U.S. Agency for International Development
Office of Development Credit
1300 Pennsylvania Ave., N.W.
Washington, DC 20524
Tel: 202-712-1380
Fax: 202-216-3593
Attn: Credit Portfolio Manager,
Development Credit

GUARANTEED PARTY:

[Name]
[Address]
[Tel:]
[Fax:]
[Attn:]

USAID FINANCIAL AGENT:

Riggs Bank N.A.
808 17th Street, N.W.
P.O. Box 96206
Washington, DC 20090-6206
Tel: 1-202-835-6746
Fax: 1-202-835-4303
Attn: Mr. Earl Ziegler, Jr.
Specialized Client Services

19. **Definitions**: When used in the Standard Terms and Conditions (Attachment 2), each underlined term defined in paragraphs 1 through 18 above shall have the same meaning as provided to such term in this Guarantee Term Sheet.

<u>ATTACHMENT 2 (Standard Terms and Conditions)</u>

ARTICLE I
<u>The Guarantee</u>

Section 1.01. **<u>The Guarantee</u>**. USAID agrees, subject to the other provisions of the Agreement, to pay the Guaranteed Party an amount equal to the USAID Guarantee Percentage (which is fifty percent (50%)) of the Guaranteed Party's net losses of principal only, as specified in Appendix 1 (*Request for Payment of Claim, Section II, Claim Terms*), arising from defaults under Qualifying Loans made to Qualifying Borrowers; *provided* that the total amount of payments made by USAID to the Guaranteed Party under the Agreement shall not exceed the Guarantee Ceiling.

Section 1.02. **<u>The Guarantee Ceiling</u>**. Notwithstanding anything in the Agreement to the contrary, the Guarantee Ceiling shall be the amount indicated in paragraph 4 of the Guarantee Term Sheet. The Guarantee Ceiling represents the maximum total amount of payments (stated in U.S. Dollars) that may be made by USAID to purchase local currency to pay local currency claims to the Guaranteed Party under the Agreement, as calculated using the Claim Payment Exchange Rate. At such time as the total payments by USAID for this purpose equal the Guarantee Ceiling, USAID shall have no further obligations to the Guaranteed Party under the Agreement.

Section 1.03. **<u>Maximum Authorized Portfolio Amount</u>**. The Maximum Authorized Portfolio Amount is specified in paragraph 1 of the Guarantee Term Sheet. No new Loan may be placed under coverage of the Agreement unless the principal amount of all Qualifying Loans then under coverage at the then applicable Reporting Exchange Rate, together with such new Loan, will not exceed the Maximum Authorized Portfolio Amount as of the date such new Loan is placed under coverage. For the avoidance of doubt, if as a result of the appreciation of the local currency against the U.S. Dollar, the U.S. Dollar equivalent of the aggregate amount of Qualifying Loans placed under coverage exceeds the Maximum Authorized Portfolio Amount the obligations of USAID under the Agreement shall still be subject to the limitation set forth in Section 1.02 (*The Guarantee Ceiling*).

Section 1.04. **<u>Maximum Cumulative Disbursements</u>**. The Maximum Cumulative Disbursements is specified in paragraph 2 of the Guarantee Term Sheet. No new Loan may be placed under coverage of the Agreement unless the principal amount of all prior disbursements made under Qualifying Loans, together with the new Loan, will not exceed the Maximum Cumulative Disbursements.

Section 1.05. **<u>Limitation on Interest</u>**. In no event shall USAID be liable for interest, late fees, or penalties with respect to the Qualifying Loans.

ARTICLE II
Qualifying Loans

Section 2.01. **Guarantee Coverage**. No Loan shall be covered by the terms of the Agreement nor placed under the coverage of the Agreement by the Guaranteed Party unless such Loan is a Qualifying Loan.

Section 2.02. **Criteria for a Qualifying Loan.** A Qualifying Loan is a Loan made by the Guaranteed Party that meets the criteria in the Guarantee Term Sheet (Attachment 1, above) and that satisfies all of the following criteria:

a) The Loan must not be used to finance any of the following:

(1) Goods or services which are to be used primarily to meet military requirements or to support police or other law enforcement activities,

(2) Surveillance equipment,

(3) Equipment, research and/or services related to involuntary sterilization or the performance of abortion as a method of family planning,

(4) Gambling equipment, supplies for gambling facilities or any hotels, casinos or accommodations in which gambling facilities are or are planned to be located, or

(5) Activities which significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas,

(b) The Loan must not be used to finance any of the following without the prior written approval of USAID:

(1) Pharmaceuticals,

(2) Pesticides,

(3) Logging equipment,

(4) Luxury goods (including alcoholic beverages and jewelry),

(5) Establishing or expanding any enterprise that will export raw materials that are likely to be in surplus in world markets at the time such production becomes effective and that are likely to cause substantial injury to U.S. producers,

(6) Activities which would result in the loss of forest lands due to livestock rearing, road construction or maintenance, colonization of forest lands or construction of dams or other water control structures,

(7) Activities which are likely to have a significant adverse effect on the environment, including any of the following (to the extent such activities are likely to have a significant adverse impact on the environment):

(a) programs of river basin development,

(b) significant irrigation or water management projects (including dams and impoundments),

(c) agricultural land leveling,

(d) major drainage projects,

(e) large scale agricultural mechanization,

(f) new lands development,

(g) resettlement projects,

(h) penetration road building or road improvement projects,

(i) construction of powerplants or industrial plants, or

(j) large scale potable water and sewerage projects,

(8) Activities which are likely to involve the loss of jobs in the United States due to the relocation or expansion outside of the United States of an enterprise located in the United States, or

(9) Activities which the Guaranteed Party is aware are reasonably likely to contribute to the violation of internationally recognized rights of workers.

Approval of loans to finance activities described in subsections (2), (3), (6) or (7) above will be contingent upon the submission by the Guaranteed Party of evidence sufficient to demonstrate compliance with local environmental laws and to enable USAID to make an assessment of the environmental impact of such activities.

(c) The Loan must be made at interest rates and on terms consistent with those generally prevailing among private commercial lenders in the borrower's country.

(d) The Loan must be funded from the Guaranteed Party's capital or funds acquired by the Guaranteed Party on a market basis, and not from subsidized loan capital received from government sources, international agencies or not-for-profit institutions.

(e) The Loan must have a scheduled maturity date for the entire principal amount no later than the Final Qualifying Loan Maturity Date.

(f) Except as otherwise agreed by USAID, the Loan must not be made in connection with the refinancing, repayment or repurchase of an existing loan.

(g) The Loan must have been placed under coverage of the Agreement in compliance with Article III.

Section 2.03. **Revisions to Qualifying Loan Criteria**. USAID shall have the right at any time to revise, add to or delete any of the Qualifying Loan criteria set forth in Section 2.02 by providing written notice to the Guaranteed Party and any such change will become effective 30 business days after the receipt of such notice by the Guaranteed Party. No change in the Qualifying Loan criteria taken pursuant to this Section 2.03 shall affect the eligibility of any Qualifying Loan that was placed under the coverage of the Agreement prior to the effective date of any such change.

Section 2.04. **Determinations Regarding Qualifying Loans.** The initial determination that a Loan to be placed under coverage of this Agreement meets the definition of a Qualifying Loan shall be made by the Guaranteed Party in the "Certification For Qualifying Loan Schedule" in the form set forth in Appendix 3 and sent to USAID with respect to such Loan. Upon receipt by USAID of such "Certification for Qualifying Loan Schedule", together with the related Qualifying Loan Schedule, each Loan listed in such Qualifying Loan Schedule shall be deemed a Qualifying Loan under the Agreement. The determination made by the Guaranteed Party in the "Certification For Qualifying Loan Schedule" will be binding on the parties to the Agreement in the absence of a determination by USAID that such determination was the result of gross negligence, fraud or material misrepresentation, and upon any such determination by USAID with respect to a Loan, such Loan shall no longer be deemed a Qualifying Loan under the Agreement.

Section 2.05. **Amendments, Assignment and Transfer**. No material amendments or modifications to the terms or conditions of a Qualifying Loan shall be made without the written consent of USAID, including extensions of the final principal repayment date. No assignment or transfer of any of the Guaranteed Party's rights or obligations under any Qualifying Loan or the Agreement (including any syndication of a Qualifying Loan or the offering of a participation in a Qualifying Loan) shall be made without the written consent of USAID,.

ARTICLE III
Placing Qualifying Qualifying Loans Under Guarantee Coverage

Section 3.01. **Time Period for Placing Qualifying Loans under Coverage**. Except as USAID may otherwise agree in writing, no Qualifying Loan shall be covered by the terms of the Agreement unless (i) such Qualifying Loan is made on or prior to the Final Date for Placing Qualifying Loans under Coverage as indicated in paragraph 5 of the Guarantee Term Sheet and (ii) such Qualifying Loan is identified to USAID in the first Qualifying Loan Schedule required to be submitted to USAID after the date of the initial disbursement of such Qualifying Loan.

Section 3.02. **Procedure for Placing Qualifying Loans under Coverage.** Subject to Sections 1.03, 1.04, 3.01 and 7.04, each Qualifying Loan will be deemed to be covered under the Agreement automatically on the date USAID receives the Qualifying Loan Schedule that includes such Qualifying Loan, in accordance with Appendix 2, together with the accompanying "Certification For Qualifying Loan Schedule" in the form set forth in Appendix 3. Nothing in this section shall preclude the parties from addressing the issue of the eligibility of a Loan for coverage under the Agreement after the Loan is placed under coverage.

Section 3.03. **Procedure for Removing Loans from Coverage.**

(a) **Removal by USAID**. Subject to the provisions of Sections 2.03 and 2.04, at any time USAID may remove any Loan from the coverage of the Agreement if USAID determines that such Loan is not a Qualifying Loan. Such removal will be effective upon receipt by the Guaranteed Party of a notice from USAID indicating the Loan to be removed from coverage and stating the reason for such removal. Upon receipt of such notice such Loan shall no longer be deemed a "Qualifying Loan" under the Agreement. USAID shall use reasonable efforts to consult with the Guaranteed Party prior to issuing any such notice in order to verify that the Loan is not a Qualifying Loan.

(b) **Removal by the Guaranteed Party**. The Guaranteed Party may remove any Qualifying Loan from the coverage of the Agreement at any time: (i) in order to permit new Qualifying Loans to be placed under coverage without exceeding the Maximum Authorized Portfolio Amount or Maximum Cumulative Disbursements; or (ii) for any other reason. The Guaranteed Party shall promptly notify USAID by written notice of any such removal.

(c) **No Reinstatement of Coverage**. No Qualifying Loan removed from the coverage of the Agreement may be placed again under coverage.

ARTICLE IV.
Claim Procedures

Section 4.01. **Claim Requirements**. No claim relating to the Guaranteed Party's losses in connection with a Qualifying Loan shall be honored by USAID unless the Guaranteed Party certifies to USAID, and USAID thereafter reasonably determines, that all of the following requirements are met:

(a) as a consequence of a default by a borrower under any Qualifying Loan (such borrower, a "Defaulting Borrower"), the total outstanding principal amount of the Qualifying Loan has become immediately due and payable, and the Guaranteed Party has made a demand upon the Defaulting Borrower for full payment of all amounts due;

(b) reasonable collection efforts have been diligently pursued against the Defaulting Borrower and any other entity that may be liable on the Qualifying Loan, in accordance with applicable laws and standard banking practice in [country]; and

(c) after such collection activities, the Guaranteed Party has either (i) certified to USAID that it has written off the entire outstanding balance (including principal and interest) of the Qualifying Loan as a bad debt expense, or (ii) certified to USAID that it (A) is unable, because of a legal impediment or significant impracticality, to take the action described in (i) above, and (B) has established a specific provision of funds (which is evidenced on its balance sheet or income statement) for possible loan losses associated with the default by the Defaulting Borrower, and the amount of such provision equals or exceeds 20% of the amount of defaulted principal.

Section 4.02. **Submission of Claim**. The Guaranteed Party shall make a claim with respect to any Qualifying Loan by submitting to USAID a claims form in the format set forth in Appendix 1 for each such Qualifying Loan.

Section 4.03. **Time Period for Submission of Claim**. In order to ensure that reasonable collection efforts have been diligently pursued, unless otherwise agreed by USAID, no claim shall be submitted earlier than ninety (90) days after the demand for full payment under the Qualifying Loan has been made by the Guaranteed Party against the Defaulting Borrower. In order to ensure that claims are submitted in a timely manner, no claim shall be submitted later than the Final Date for Submitting Claims indicated in the Guarantee Term Sheet, provided, however, that no claim may be submitted to USAID if the date of such demand for payment occurs after the cancellation of coverage pursuant to Section 10.02 (*Termination or Suspension by USAID for Cause*) or Section 6.02 (*Failure to Pay Guarantee Fees*).

Section 4.04. **Approval of Claim for Payment**. USAID reserves the right to request further documentation or clarification of any claim submitted prior to approving a claim for payment. A claim will be denied only if USAID reasonably determines that: (a) the requirements stated in Sections 4.01 and 4.03 above have not been fully satisfied; or (b) subject to Section 2.04, the loan is not a "Qualifying Loan" as such term is defined in the Guarantee Term Sheet and these Standard Terms and Conditions. Neither approval nor payment of a claim shall be deemed to waive USAID's right to contest such claim subsequently on these or any other grounds.

Section 4.05. **Payment of Claim**. Upon approval of a claim for payment by USAID and subject to the provisions of Article I regarding the Guarantee Ceiling, USAID shall pay to the Guaranteed Party the approved amount of the claim in the Currency of Guarantee Payment specified in the Guarantee Term Sheet. USAID shall have the right to reduce the amount of payment of any claim by the amount of any unpaid Guarantee Fees, including accrued interest thereon at the rate of one percent (1%) per month.

Section 4.06. **Repayment**. Notwithstanding any other provision of the Agreement, USAID shall have no obligation to make payment to the Guaranteed Party for any loss arising out of fraud or material misrepresentation for which the Guaranteed Party is responsible or for any claim that is otherwise invalid or materially inconsistent with the provisions of the Agreement. [In addition, USAID reserves the right to demand a refund of any payment made to the Guaranteed Party if, prior to the time such payment was made, the Guaranteed Party or any of the key individuals specified in Section 8.01(e) was convicted of a narcotics offense or was engaged in drug trafficking as defined in Part 140 of Title 22 of the United States Code of Federal Regulations]. If, subsequent to paying any claim made by the Guaranteed Party, USAID determines that such payment was prohibited by this Section, the Guaranteed Party shall, upon the request of USAID, refund immediately to USAID the appropriate amount of the payment obtained plus interest accruing from the date of the payment at the rate of one percent (1%) per month.

ARTICLE V
Post-Claim Recoveries

Section 5.01. **Duty to Pursue Collection**. After making a claim under the Agreement, the Guaranteed Party shall continue to diligently pursue all reasonable collection efforts against the Defaulting Borrower for so long as commercially reasonable and in accordance with the Guaranteed Party's standard collections procedures and policies.

Section 5.02. **Reimbursement of USAID**. If USAID has paid a claim with respect to a Qualifying Loan, and the Guaranteed Party, following the submission of such claim, receives or recovers any funds relating to or in satisfaction of amounts owed by the Defaulting Borrower under the Qualifying Loan, whether received or recovered directly from the borrower, another guarantor, a collateral agent or any other party, (any such funds, hereinafter defined as "Recovered Funds"), the Guaranteed Party shall promptly reimburse USAID on a *pro rata* basis (this means USAID shall receive the USAID Guarantee Percentage of Recovered Funds), after deducting reasonable expenses actually incurred in its collection efforts and accrued but unpaid interest, excluding interest at a higher rate than is in effect immediately prior to the default. If a Defaulting Borrower is in default on one or more additional loans made by the Guaranteed Party that are not covered by the Agreement, the Guaranteed Party shall pursue collection on the Qualifying Loan made to such Defaulting Borrower prior to, and in priority over, pursuing collection on the such other loans. Payments made to USAID under this section shall be made in the Currency of Guarantee Payment specified in the Guarantee Term Sheet and must be paid within ninety (90) calendar days from the date of recovery. Any amount not paid to USAID within this ninety (90) day period shall accrue interest at the rate of one percent (1%) per month.

Section 5.03. **Certificate of Post-Claim Recoveries**. Following the payment of any claim under the Agreement, the Guaranteed Party shall deliver to USAID a "Certification of Post-Claim Recoveries", substantially in the form set forth in Appendix 4, together with the first Qualifying Loan Schedule required to be submitted under the Agreement for each calendar year. USAID may refuse to pay any claims if the Guaranteed Party has failed to submit an accurate "Certification of Post-Claim Recoveries" as required by the preceding sentence. In addition, following the Coverage Expiration Date, the Guaranteed Party shall continue to submit a "Certification of Post-Claim Recoveries", substantially in the form set forth in Appendix 4, no later than sixty (60) days after the end of each calendar year until three (3) years after the Coverage Expiration Date or longer if so requested by USAID. The Guaranteed Party further agrees to comply with reasonable requests from USAID concerning post-claim recoveries, including any request to submit an annual or semi-annual schedule of net recoveries with respect to each Defaulting Borrower.

Section 5.04. **Assignment of Claim**. At USAID's request (which may be made at any time), the Guaranteed Party shall execute an assignment to USAID or USAID's designee, in form and substance acceptable to USAID, of the Guaranteed Party's rights to receive the share of net recoveries due to USAID and/or to pursue collection of USAID's *pro rata* share of net recoveries under each Qualifying Loan.

ARTICLE VI
Guarantee Fees

Section 6.01. **Guarantee Fees**. In consideration for the Agreement, the Guaranteed Party shall pay to USAID the following non-refundable fees (the "Guarantee Fees"):

(a) **Origination Fee**. No later than thirty (30) days after the date of the Agreement, the Guaranteed Party shall pay to USAID a one-time Origination Fee as specified in the Guarantee Term Sheet.

(b) **Utilization Fee**. The Guaranteed Party shall pay to USAID a Utilization Fee with respect to each Guarantee Period. The Utilization Fee shall be due no later than thirty (30) days after receipt of a Notice of Payment Due sent by the Financial Agent. The Utilization Fee shall be calculated in accordance with item 11(b) of the Guarantee Term Sheet.

Section 6.02. **Failure to Pay Guarantee Fees**.

(a) If the Origination Fee is not paid as and when due, at USAID's option and upon written notice by USAID, USAID may declare the Agreement terminated, and USAID shall have no obligations under the Agreement.

(b) If the Utilization Fee is not paid as and when due, USAID may, upon written notice to the Guaranteed Party, terminate or suspend (and subsequently terminate at its discretion) the Agreement, and upon any such termination or suspension USAID shall have no obligations under the Agreement.

Section 6.03. **Currency of Fee Payment**. All payments of amounts owing to USAID under the Agreement shall be made in the Currency of Fee Payment specified in the Guarantee Term Sheet. [If payable in U.S Dollars although Qualifying Loans are denominated in local currency, the payment shall be calculated in local currency and payable in an equivalent amount of U.S. Dollars, calculated at the

Reporting Exchange Rate determined by USAID and as specified in the Notice of Payment Due sent by the Financial Agent.]

ARTICLE VII
Reporting and Records

Section 7.01. **Semi-Annual Portfolio Reporting**. No later than thirty (30) days after the end of each Guarantee Period, the Guaranteed Party shall provide to USAID and the Financial Agent copies of the Qualifying Loan Schedule in effect on the last day of such Guarantee Period in the form indicated in Appendix 2 and completed in accordance with the instructions provided therein, together with a "Certification for Qualifying Loan Schedule", substantially in the form set forth in Appendix 3. USAID encourages the Guaranteed Party to submit such Qualifying Loan Schedule and "Certification for Qualifying Loan Schedule" through its internet-based Credit Management System ("CMS") (https://admin.cms.usaid.org). The Guaranteed Party should send an email request for a CMS tutorial and a user's guide to cms@usaid.org in order to enable the Guaranteed Party to gain access to the CMS system.

Section 7.02. **Annual Financial Reporting.** The Guaranteed Party shall prepare annual audited financial statements in accordance with [accounting standards generally recognized in [country] and shall submit such financial statements to USAID no later than 180 days after the end of each of the Guaranteed Party's fiscal years.

Section 7.03. **Other Reporting**. USAID reserves the right to carry out, or to have carried out, such additional audits, financial reviews, or evaluations as it considers appropriate in view of its status as guarantor, including audit reports on Qualifying Borrowers under Qualifying Loans. Should USAID request an audit report on any such party, the Guaranteed Party agrees that it shall use all reasonable means to require and obtain such reports from that party.

Section 7.04. **Failure to Provide Required Reports.** Should the Guaranteed Party fail to provide any reports required by the Agreement to USAID when due, no additional Qualifying Loans shall be placed under the coverage of the Agreement until such reports are received. If USAID has not been furnished with the documents specified in Sections 7.01 and 7.02 as and when due, USAID may defer payment of any claims until it receives such documentation in form satisfactory to USAID.

Section 7.05. **Books and Records.** The Guaranteed Party shall:

(a) Maintain or cause to be maintained, in accordance with [accounting standards generally recognized in [country] consistently applied, books and records relating to each Qualifying Loan covered by the Agreement, which are adequate to show compliance with the terms of the Agreement. Such books and records will be maintained with respect to each Qualifying Loan, except as USAID may otherwise agree in writing, for a period of three (3) years after the Final Date for Submitting Claims with respect to such Qualifying Loan in accordance with Section 4.03.

(b) Afford authorized representatives of USAID the opportunity at all reasonable business hours to inspect such books, records and other documents and files relating to the Agreement and the Qualifying Loans covered by the Agreement.

(c) Promptly make available such other information and records relevant to the Agreement and the Qualifying Loans covered by the Agreement as USAID may reasonably request.

ARTICLE VIII
Conditions Precedent

Section 8.01. **Conditions Precedent**. Notwithstanding anything in the Agreement to the contrary, no Qualifying Loan shall be placed under coverage until USAID has received the following from the Guaranteed Party and has notified the Guaranteed Party in writing that the materials and information supplied are in form and substance satisfactory to USAID:

(a) A certificate of the Guaranteed Party, dated as of the date of the Agreement and in form and substance satisfactory to USAID, as to the authority of the persons signing the Agreement and any appendices hereto on behalf of the Guaranteed Party.

(b) A legal opinion stating in effect that, based on facts and circumstances (and/or documents) presented to legal counsel by the Guaranteed Party (or otherwise), the representations contained in Sections 9.01 through 9.03 of Article IX are true and complete.

(c) An Officer's Certificate from a senior officer of the Guaranteed Party certifying that those representations contained in Sections 9.04 through 9.07 of Article IX are true and complete.

(d) A copy of the following:

(1) The Guaranteed Party's annual reports for the previous three (3) years, including financial statements which have been audited in accordance with [generally accepted domestic auditing standards];

(2) A list of the principal officers of the Guaranteed Party;

(3) The Guaranteed Party's operations and procedures manual, or the equivalent, as approved by the Guaranteed Party's board of directors, which defines the Guaranteed Party's criteria for assessing risk and issuing loans, fee policy and conflict-of-interest guidelines;

(4) A business plan and indicative budget relating to the Guaranteed Party's lending targets for Qualifying Projects, including staff and organizational restructuring plans, if any, that relate to such targets and an estimate of staff training and technical assistance needs as they relate to such targets; and

[(5)A description of the Guaranteed Party's policies and procedures to assure that projects financed by the Guaranteed Party are environmentally sound and comply with applicable law and regulations.]

(e) [The Guaranteed Party must provide USAID with the names of key individuals for the purpose of completing a Certification, in the form of Appendix 5, regarding Narcotics Offenses and Drug Trafficking. This Certification need not be completed and approved prior to the execution and implementation of the Agreement. However, in the event that the Certification of Narcotics Offenses and Drug Trafficking is not executed by the key individual or is not approved by the U.S. Government, the Agreement shall be deemed null and void.]

ARTICLE IX
Representations and Covenants

For purposes of the Agreement, the Guaranteed Party represents, or in the case of Sections 9.05(b), 9.07(a), 9.08 and 9.09 covenants, to USAID as follows:

Section 9.01. **Organization, Existence**. The Guaranteed Party is duly organized and validly existing where incorporated or chartered. The Guaranteed Party has full power, authority and legal right to carry out its business as currently conducted, to execute, deliver and perform the Agreement and all other documents which the Agreement contemplates will be executed by the Guaranteed Party and to carry out all the activities which the Agreement contemplates will be carried out by the Guaranteed Party.

Section 9.02. **Authorization, Binding Effect**. The execution, delivery and performance by the Guaranteed Party of the Agreement have been duly authorized by all necessary actions of the Guaranteed Party, and the Agreement constitutes a legal, valid and binding obligation of the Guaranteed Party enforceable in accordance with its terms.

Section 9.03. **Governmental Approvals**. No approval or consent of any kind is required from any governmental authority in order for the Guaranteed Party to enter into the Agreement and perform its duties, except such as have already been obtained and are in full force and effect.

Section 9.04. **Debarment Status**. For the three (3) years preceding the date of the Agreement the Guaranteed Party has not been on any list of ineligible or debarred suppliers or firms maintained by the U.S. Government. A list of organizations suspended or debarred by the U.S. Government is available at www.epls.gov/epls.

Section 9.05. **Disclosure of Lobbying Activities.**

(a) No registered lobbyists have made lobbying contacts on behalf of the Guaranteed Party in connection with the Agreement.

(b) No registered lobbyists shall make lobbying contacts on behalf of the Guaranteed Party in connection with the Agreement unless the Guaranteed Party complies with the requirements of 31 USC 1352(b) and any other applicable U.S. law.

Section 9.06. **Drug Trafficking**. The Guaranteed Party: (1) has not been convicted of a violation of, or a conspiracy to violate, any law or regulation of the United States or any other country concerning narcotic or psychotropic drugs or other controlled substances; (2) is not or has not been an illicit trafficker in any such drug or controlled substance; and (3) is not or has not been a knowing assistor, abettor, conspirator, or colluder with others in the illicit trafficking in any such drug or substance.

Section 9.07. **Terrorism.**

(a) U.S. laws and regulations prohibit USAID from providing assistance or support to certain individuals and entities identified as being associated with terrorism. Notwithstanding any other provision of the Agreement, Loans to such individuals or entities are not eligible for coverage under the Agreement and the Guaranteed Party agrees to refrain from knowingly making such loans, and USAID shall have no obligation to pay any claims in connection with any such Loans.

(b) To the best knowledge of the Guaranteed Party, neither the Guaranteed Party nor any of its principal officers appears on any terrorism list maintained by the U.S. Government. A list of such individuals and entities can be found in the United States Department of Treasury web site: http://treasury.gov/ofac.

Section 9.08. **Future Disclosure**. The Guaranteed Party shall inform USAID in a timely manner of any facts and circumstances of which it has actual knowledge that arise after the date of the Agreement and materially affect the Agreement or the discharge of obligations under the Agreement, or the truth and accuracy of any of the representations made in this Article IX.

Section 9.09. **Change of Control**. The Guaranteed Party acknowledges that USAID is entering into the Agreement partly because it considers the Guaranteed Party to be a good risk-sharing partner. The Guaranteed Party shall not be acquired by or merge with another legal entity or person, nor shall a majority of the equity interests in the Guaranteed Party be sold to or otherwise acquired by any legal entity or person that does not own at least ten percent (10%) of the equity interests in the Guaranteed Party as of the date of the Agreement, without prior written notification to USAID.

ARTICLE X
Termination and Reduction

Section 10.01. **Term**. Unless terminated at an earlier date by USAID or the Guaranteed Party, the Agreement shall terminate on the Coverage Expiration Date of the Agreement (as indicated in the Guarantee Term Sheet), provided that such termination on the Coverage Expiration Date will not (i) relieve USAID of its obligations under the Agreement with respect to claims submitted prior to the Final Date for Submitting Claims (as indicated in the Guarantee Term Sheet) or (ii) relieve the Guaranteed Party of its obligations under Section 5.02 (*Reimbursement of USAID*) and Section 5.03 (*Certificate of Post-Claim Recoveries*).

Section 10.02. **Termination or Suspension by USAID for Cause**. USAID may terminate or suspend the Agreement at any time by written notice to the Guaranteed Party (i) upon the determination of USAID that the Guaranteed Party has committed a material breach of the Agreement (including a breach of Section 5.02 (*Reimbursement of USAID*)) or has engaged in fraud or material misrepresentation adversely affecting USAID or (ii) if the Guaranteed Party has not made any Qualifying Loans on or prior to [September 30, 2005]. [In addition, USAID reserves the right to terminate the Agreement or take other appropriate measures if the Guaranteed Party or any of the key individuals specified in Section 8.01(e) is found to have been convicted of a narcotics offense or to have been engaged in drug trafficking as defined in Part 140 of Title 22 of the United States Code of Federal Regulations.] USAID may, on written notice to the Guaranteed Party, and based on USAID's opinion as to the severity and relevance of the alleged breach, elect either to continue or to cancel coverage of any then-outstanding Qualifying Loans.

Section 10.03. **Termination or Suspension for Convenience**. Either party may terminate or suspend the Agreement at its convenience at any time for any reason by thirty (30) days written notice to the other party. It is understood that USAID may exercise this right if the continuation of the Agreement would not be in the foreign policy interests of the United States or would be in violation of applicable law. Any termination or suspension for convenience by USAID pursuant to this Section 10.03 shall not affect the validity of the Agreement on the portions of the Qualifying Loans that have been disbursed prior to the date of such suspension or termination.

Section 10.04. Effect of Termination.

(a) **Termination by USAID**. No termination or suspension of the Agreement pursuant to Section 10.02 or 10.03 shall have any effect on the validity or enforceability of the Agreement with respect to any claim for which a demand for full payment was made prior to such termination or suspension; provided, that this limitation shall not apply if termination or suspension is based on Section 6.02 (*Failure to Pay Guarantee Fees*), Section 5.02 (*Reimbursement of USAID*) or alleged fraud or material misrepresentation.

(b) **Termination by the Guaranteed Party**. In the event of a termination or suspension by the Guaranteed Party pursuant to Section 10.03, neither USAID nor the Guaranteed Party will have any further obligations under the Agreement except that the obligation of the Guaranteed Party to pay any Guarantee Fees due and unpaid as of the date of termination or suspension shall remain in full force and effect and the obligation of USAID to pay any claims submitted prior to such termination shall remain in full force and effect.

(c) **Survival of Certain Obligations**. Notwithstanding any other provision of the Agreement, the obligations of the Guaranteed Party with respect to any unpaid payment obligation incurred prior to the date of any termination or suspension of the Agreement, and the obligations of the Guaranteed Party with respect to Sections 4.06 (*Repayment*), 5.02 (*Reimbursement of USAID*) and Section 5.03 (*Certificate of Post-Claim Recoveries*) shall survive any termination or suspension of the Agreement.

Section 10.05. **Reduction of Guarantee Coverage**. USAID has agreed to the Maximum Authorized Portfolio Amount indicated in the Guarantee Term Sheet on the understanding that such amount approximates the aggregate principal amount of the Qualifying Loans which the Guaranteed Party intends to maintain under guarantee coverage of the Agreement at any one time. Therefore, if at any time after the first twelve (12) months of the Agreement it becomes apparent to the parties that the Agreement is not being adequately utilized, the parties shall reduce the unused portion of the Maximum Authorized Portfolio Amount and/or the Maximum Cumulative Disbursements and Guarantee Ceiling as may be mutually agreed. The Guaranteed Party agrees to consult with USAID concerning any matters that interfere with the adequate utilization of the Agreement.

ARTICLE XI
Definitions

Section 11.01. **Terms**. Throughout the Agreement (including the Guarantee Term Sheet) terms, when capitalized, shall have the meaning assigned to them or as follows:

(a) "Affiliate" shall mean, with respect to a Qualifying Borrower, (i) if such Qualifying Borrower is an individual, any immediate family member of such Qualifying Borrower, any person that resides in the same home of such Qualifying Borrower, any person that is employed by such Qualifying Borrower or any person that receives substantial monetary or other economic assistance from such Qualifying Borrower, and (ii) in all other cases, any legal entity that is directly or indirectly controlled by such Qualifying Borrower or under direct or indirect common control with such Qualifying Borrower;

(b) "Agreement" shall have the meaning assigned there in the letter dated September 30, 2004 between USAID and the Guaranteed Party. For the avoidance of doubt, the Agreement includes such letter, the Guarantee Term Sheet and these Standard Terms and Conditions, and the date of the Agreement shall be the date such letter between USAID and the Guaranteed Party has been signed by USAID;

(c) "Claim Payment Exchange Rate" shall mean the rate of exchange for the conversion of U.S. Dollars to any other currency specified in the Guarantee Term Sheet, as determined by the USAID Controller in [country];

(d) "Defaulting Borrower" shall have the meaning assigned thereto in Section 4.01(a)

(e) "Financial Agent" shall mean Riggs Bank, N.A., or such other financial agent as designated by USAID in a written notice to the Guaranteed Party;

(f) "Guarantee Fees" shall have the meaning assigned thereto in Section 6.01;

(g) "Guarantee Periods" shall mean the periods used to determine Utilization Fee payments and certain reporting requirements. The dates of each Guarantee Period are specified in the Guarantee Term Sheet;

(h) "Guarantee Term Sheet" shall mean the guarantee term sheet set forth as Attachment 1 to the Agreement;

(i) "Loan" shall mean any type of commercial loan, unless limited by USAID in the Guarantee Term Sheet, but, for the avoidance of doubt, excluding any letter of credit, credit card debt, lines of credit or other forms of debt other than commercial loans unless agreed to in writing by USAID;

(j) [Intentionally Omitted]

(k) "Notice of Payment Due" shall mean a notice sent to the Guaranteed Party and specifying the amount of Utilization Fees that are then due and payable under the Agreement;

(l) "Recovered Funds" shall have the meaning assigned thereto in Section 5.02;

(m) "Reporting Exchange Rate" shall mean the rate of exchange for conversion of the local currency to U.S. Dollars or the conversion of U.S. Dollars to local currency, as used by the U.S. Treasury on a quarterly basis and in effect at the time any such conversion is calculated. As of the date of the Agreement, such rates are published at http://fms.treas.gov/intn.html.

(n) "Standard Terms and Conditions" shall mean these standard terms and conditions set forth as this Attachment 2 to the Agreement.

ARTICLE XII
Miscellaneous

Section 12.01. **Language of the Agreement.** The Agreement is prepared in both English [and Arabic]. In the event of ambiguity or conflict between the two versions, the English version shall control.

Section 12.02. **Notices and Communications.** Any notices or binding communication submitted by any party to the Agreement to the other shall be in writing and, unless otherwise agreed, shall be in the English language, and shall be deemed to have been duly given or sent when delivered to the receiving party at the address indicated in the Guarantee Term Sheet.

Section 12.03. **Payments.** All payments by either party to the Agreement shall be made in accordance with the Payment Instructions indicated in the Guarantee Term Sheet.

Section 12.04. **Exchange Rates**. For purposes of making any calculation under the Agreement, local currency/U.S. Dollar equivalencies shall be determined by using the Reporting Exchange Rate in Section 11.01(l) with respect to calculations of the Maximum Authorized Portfolio Amount, calculations of the Maximum Cumulative Disbursements and the payment of Guarantee Fees. For purposes of making any calculation under the Agreement, local currency/U.S. Dollar equivalencies shall be determined by using the Claim Payment Exchange Rate in Section 11.01(c) with respect to the payment of claims, calculations regarding the Guarantee Ceiling, or any other calculations under the Agreement.

Section 12.05. **Full Faith and Credit**. The obligations of USAID under the Agreement constitute full faith and credit obligations of the United States of America.

Section 12.06. **Taxation**. The Guaranteed Party agrees to pay all taxes imposed by any government authority in [country], including any interest and penalties, if any, on or with respect to the Agreement, and hereby indemnifies USAID against any such taxes that may be imposed upon USAID in connection therewith. Payments of all amounts due to USAID under the Agreement shall be made free and clear of and without reduction for such taxes or similar charges or any regulatory fees, wire processing fees, or other costs incurred in [country] in connection with such payments.

Section 12.07. **Information and Publicity**. USAID and the Guaranteed Party will cooperate, from time to time, in exchanging information about the Agreement and its implementation and in giving appropriate publicity to the Agreement as a program to which USAID has contributed.

Section 12.08. **Dispute Resolution.** The Agreement shall be governed by and construed in accordance with the laws of the State of New York of the United States of America. The parties agree to use their best efforts to resolve disputes arising under the Agreement through amicable negotiations. Any disputes, controversies or claims arising between the parties under the Agreement that cannot be resolved in negotiations between the parties shall be finally settled in accordance with the Rules of Arbitration of the International Chamber of Commerce (unless otherwise agreed upon by the parties) in force at the date of request for arbitration, which rules are deemed incorporated by reference into this clause. Such arbitration shall take place in [Washington, DC] (unless otherwise agreed upon by the parties), shall be conducted in the English language, and shall be the sole and exclusive forum for the resolution of disputes, and the decision of the arbitrator(s) shall be final and binding on the parties. Judgment on the award may be entered in any court having jurisdiction thereof. Each party hereby irrevocably consents to the service or process in any action or proceeding under the Agreement by mailing copies thereof to the party's address set forth in the Guarantee Term Sheet (Attachment 1), by recognized express courier (such as Federal Express or DHL).

Section 12.09. **Conflicts**. In the event of any conflict, inconsistency or ambiguity between the terms and conditions of the Guarantee Term Sheet and the terms and conditions of the Standard Terms and Conditions, the terms and conditions of these Standard Terms and Conditions shall control.

Section 12.10. **Entire Agreement**. The Agreement constitutes the entire agreement between the Parties concerning the subject matter of the Agreement and supersedes any prior understanding or written or oral agreement.

Section 12.11. **Counterparts**. The Agreement may be signed in separate counterparts each of which shall be deemed to be an original and all of which together shall constitute one and the same instrument.

APPENDIX 1

REQUEST FOR PAYMENT OF CLAIM

[address]

Pursuant to Section 4.02 of Guarantee Agreement No. _____ (the "Agreement") entered into between USAID and ______________ (the "Guaranteed Party") on [date], we hereby request that you make the following payment with respect to the following loan (the "Loan"):

I. Loan Description: Indicate the following:

(a) Date For Certification of Qualifying Loan Schedule in which the Loan first appeared:
(b) Borrower:
(c) Lender
(d) Effective Date:
(e) Date of final maturity:
(f) Principal amount:
(g) Disbursement date(s) (if multiple disbursements, indicate amount disbursed on each date):
(h) Interest rate:
(i) Currency:
(j) Other lenders:
(k) Other guarantors:
(l) Other loans to the same borrower which are covered under the Agreement (indicate effective date, maturity date, principal amount, and interest rate):

II. Claim Terms.

(a) Date(s) of default by the Qualifying Borrower:
(b) Date(s) of demand by the Guaranteed Party on the Qualifying Borrower:
(c) Amount of defaulted principal payment (do not include any defaulted interest payments):
(d) Description of the collection efforts made pursuant to Section 4.01(b) of the Agreement and the total amount collected to date (net of reasonable expenses actually incurred in such collection efforts):
(e) AMOUNT OF CLAIM (default amount(s) less recoveries multiplied by the Guarantee Percentage expressed as a decimal fraction):

(f) Other loans to same borrower which are in default (indicate effective date, maturity date, principal amount, and interest rate):

III. Payment Instructions. The Guaranteed Party requests that payment be made by the method and to the account described below:

[Insert]

IV. Claim Certification. The Guaranteed Party hereby certifies that it has complied with the requirements of the Agreement (including the payment of all Guarantee Fees arising under Section 6.01) and will comply with the requirements of Article V of the Agreement. The Guaranteed Party further certifies that: (a) the Qualifying Borrower has failed to repay the above-stated principal amount due on the Qualifying Loan; (b) the Qualifying Borrower has failed to meet the Guaranteed Party's demand for repayment of the principal amount due on the Qualifying Loan; (c) the Guarantee Party has diligently pursued reasonable collection efforts against the Qualifying Borrower (and any other entity that may be liable on the Qualifying Loan), in accordance with applicable laws and standard banking practice in [country]; and (d) after such collection activities, the Guaranteed Party has (1) certified to USAID that it has written off the entire outstanding balance (including principal and interest) of the Qualifying Loan as a bad debt expense, or (2) certified to USAID that it (A) is unable, because of a legal impediment or significant impracticality, to take the action described in (1) above, and (B) has established a specific provision of funds (which is evidenced on its balance sheet or income statement) for possible loan losses associated with the default by the Defaulting Borrower, and the amount of such provision equals or exceeds 20% of the amount of defaulted principal.

By:________________________
Name:______________________
Title:_______________________
Date:_______________________

Appendix 2

Qualifying Loan Schedule (QLS)

Guaranteed Party: **Maximum Portfolio Amount:** **Guarantee Ceiling:** **Guarantee No.:** **USAID Operating Unit: USAID/______**	**Reporting Period:** **Page ____ of ____**

(1) Name of Borrower / Purpose of Loan / Type of Business	(2) Date of Qualifying Loan (yyyy/mm/dd)	(3) Loan Type (Term Loan, Line of Credit or Other Types of Credit)	(4) Date Placed Under Coverage (yyyy/mm/dd)	(5) Maturity Date (yyyy/mm/dd)	(6) Interest Rate (annualized rate, only to be entered in QLS if not using CMS database)	(7) Amount of Qualifying Loan (in local currency)	(8) **Principal Balance, Beginning of Reporting Period**	(9) Disbursements To the Borrower During the Reporting Period	(10) Repayments From the Borrower During the Reporting Period	(11) **Principal Balance, End of Reporting Period** = (8) +(9) – (10)	(12) Date Removed From Guarantee Coverage (yyyy/mm/dd)

The Qualifying Loan Schedule (QLS) is to be kept up to date and in chronological order as Loans are placed under guarantee coverage and removed from coverage. A Loan is placed under coverage by making entries in columns 1 – 7. Columns 8-11 are adjusted at the end of each reporting period. A Loan is removed from coverage by making an entry in column 12 only if column 11 has a zero balance. This form should be duplicated when additional pages of the QLS are needed. Each page must be numbered in chronological order.

APPENDIX 3

CERTIFICATION FOR QUALIFYING LOAN SCHEDULE

U.S. Agency for International Development
(Address)

Attention:

Ref: Loan Portfolio Guarantee Agreement No. DCA – [insert guarantee no.]

Attached is the Qualifying Loan Schedule for the following Guarantee Period:

______________________ through ______________________.

Reference is hereby made to the Agreement [insert guarantee no.] (the "Agreement"), dated ___, 200_, between the U.S. Agency for International Development ("USAID") and [insert name of Guaranteed Party] (the "Guaranteed Party"). Capitalized terms used but not defined in this certificate shall have the meanings assigned thereto in the Agreement. The Guaranteed Party hereby certifies that, as of the date hereof: (i) the Loans identified in the attached Qualifying Loan Schedule are Qualifying Loans as defined in the Agreement; (ii) the placement of such Loans under the coverage of the Agreement will not cause the Maximum Authorized Portfolio Amount, the Maximum Cumulative Disbursements or the Maximum Cumulative Principal Amount of Loans Per Qualifying Borrower (see paragraphs 1, 2, and 14, respectively, of the Guarantee Term Sheet) to be exceeded; and (iii) all of the information hereby submitted with respect to such loans is true and correct.

[Include Certification of Post-Claim Recoveries with the Qualifying Loan Schedule if a claim has been paid under the Agreement]

Guaranteed Party

____
By (Signature)

____
Name (please print)

____
Title (please print)

____
Date

APPENDIX 4

CERTIFICATION OF POST-CLAIM RECOVERIES

U.S. Agency for International Development
(Address)

Attention:

Ref: Loan Portfolio Guarantee Agreement No. DCA – [insert guarantee no.]

Capitalized terms used but not defined herein shall have the meanings assigned thereto in the guarantee agreement No. [insert guarantee no.] (the "Agreement") dated __________, between the United States Agency for International Development (USAID) and [insert name of the Guaranteed Party](the "Guaranteed Party"). The Guaranteed Party hereby certifies that it was paid [insert amounts] by USAID in connection with claims submitted under the Guarantee Agreement.

The Guaranteed Party further certifies that, as of the date hereof, it has received [insert amount of recoveries net of reasonable collection costs incurred] in Recovered Funds (as defined in Section 5.02 of the Guarantee Agreement). Such amount is net of [   ] in reasonable collection costs incurred by the Guaranteed Party in pursuing such recoveries. [Insert brief description of collection efforts and related costs incurred].

The Guaranteed Party acknowledges that USAID may refuse to honor any claims under the Agreement if the specified amount of Recovered Funds above is not accurate.

Guaranteed Party

____
By (Signature)

____
Name (please print)

____
Title (please print)

____
Date

APPENDIX 5

KEY INDIVIDUAL CERTIFICATION
NARCOTICS OFFENSES AND DRUG TRAFFICKING

I hereby certify that within the last ten years:

1. I have not been convicted of a violation of, or a conspiracy to violate, any law or regulation of the United States or any other country concerning narcotic or psychotropic drugs or other controlled substances.

2. I am not and have not been an illicit trafficker in any such drug or controlled substance.

3. I am not and have not been a knowing assistor, abettor, conspirator, or colluder with others in the illicit trafficking in any such drug or substance.

Signature: [redacted]
Date: [redacted]
Name:
Organization:
Position:
Address:
National ID#:
Date of Birth:

NOTICE:

1. You are required to sign this Certification under the provisions of 22 CFR Part 140, Prohibition on Assistance to Drug Traffickers. These regulations were issued by the Department of State and require that certain key individuals of organizations must sign this Certification.

2. If you make a false Certification you are subject to U.S. criminal prosecution under 18 U.S.C. 1001.

TAB 13 : IMPLEMENTATION
TABLE OF CONTENTS

Chemonics International Inc., 1133 20th St. NW, Washington, DC 20036
Telephone 202.955.3300, Fax 202.955.3400, www.chemonics.com

Presentation: Implementation

DCA Implementation

August 25, 2005

Chemonics International

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Lender Role

- Reviews and asks questions about "Welcome to DCA: A Brief Guide on How to Use Your USAID Credit Guarantee" from USAID/ODC.
- Meets Conditions Precedent per the DCA Legal Agreement
- Pays the Origination Fee upon receipt of the DCA Legal Agreement.
- Places loans to qualifying borrower(s) under coverage, and monitoring and collecting on those loans per the lender's credit policies and procedures.
- Completes Qualifying Loan Schedule (QLS) for Loan Portfolio Guarantees.

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Lender Role

- Participates in technical assistance / capacity building programs as agreed.
- Enters data into Credit Management System (CMS).
- Completes Semi-annual reporting and Annual Data Questionnaire.
- Files legitimate claims on the guarantee.
- Shares with USAID the appropriate percentage of recoveries.

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Mission Role

Getting started

- Send copies of signed agreements to EGAT/DC
- Conditions Precedent
  - Utilization targets
  - Legal opinions on representation
  - Officer's Certificate – debarment status, lobbying activities, drug trafficking, terrorism
- Origination Fee
  - Due within one month of signing guarantee agreement
  - No invoice will be sent to bank
  - Instructions included in agreement
  - Copies of Mission receipt to EGAT/DC (if paid locally)

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Complementary Technical Assistance

Missions are responsible for planning complementary technical assistance to support DCA guarantees.

- **Why?** Technical Assistance to lenders and borrowers promotes utilization of guarantees and helps ensure their success and impact.

- **When?** Needed capacity building and technical assistance should be built into the design of a DCA guarantee activity and be implemented over its duration.

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Technical Assistance Example - Uganda

USAID's Support for Private Enterprise Expansion and Development (SPEED) supported the 7-bank DCA Loan Portfolio Guarantee for MSME lending with:

- Capacity building of MFIs.
- Helping with "outreach" by commercial banks.
- Business Development Services to potential borrowers.
- Policy reform efforts.
- Ongoing relationship management, implementation, monitoring and reporting support for the Mission.

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Technical Assistance Example - India

USAID's Financial Institution and Reform Expansion Project – Debt Market Component (FIRE-D) supported a DCA Bond Guarantee for a pooled bond issue by small municipalities for water projects by:

- Increasing participation in commercially viable urban environmental services (water, sewerage, solid waste)
- Building capacity of municipal and state governments
- Supporting market-based urban infrastructure financing systems and mechanisms

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General DCA Technical Assistance

Missions often engage contractors to:

- Conduct a market analysis
- Complete a survey of the banking sector and/or capital markets
- Initiate discussions with lenders
- Draft DCA concept papers and structure deals
- Prepare DCA action packages
- Assist with preparation for the Credit Review Board Meeting
- Evaluate existing DCA guarantees
- Implement DCA guarantees as part of an ongoing TA project

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DCA Implementation Chemonics-Style

Local Professional DCA Manager Duties (Uganda)

- Receive applications for coverage of loans under the DCA, vet the applications for eligibility, process and communicate approval (or disapproval) of the loans coverage
- Monitor banks to ensure fee payment when due
- Liaise with, and vet the banks to ensure proper and timely semi annual and annual reporting is done on the Web Based CMS reporting system
- Develop and maintain a data base of DCA usage by all the participating banks by the different programs
- Process applications for reimbursements from the banks and follow up with USAID Washington to the point when the payments are made
- Monitor DCA portfolio with regard to outstanding loans and potential losses

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DCA Implementation Chemonics-Style

Local Professional DCA Manager Duties (Uganda)

- Work with banks to insure appropriate collections practices for any claims
- Meet regularly with participating banks to insure compliance with DCA agreements, market its usage and attend to any matters arising from the banks
- Encourage participating banks to utilize the DCA in areas wherein they previously had limited experience, particularly with regard to agriculture loans
- Propose new opportunities for additional DCA leverage
- Work closely with USAID to insure appropriate contracting procedures
- Interface with APEP with regard to joint management of the CM DCA
- Prepare quarterly summary reports and any ad hoc reports as required

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Utilization Trends

Generalizations about Loan Portfolio Guarantees:

- Large commercial banks and very small financial institutions tend to begin utilization slowly.
- Mid-size commercial banks, MFIs (of all sizes), and mid-size financial institutions tend to utilize faster.
- When the guarantee is meant to help a financial institution develop a new loan product, it tends to take longer than if they are simply modifying existing underwriting methodologies.

Utilization Trends

Utilization For DCAs With At Last Two Years of Operation

	Period 1	Period 2	Period 3	Period 4
Eastern Europe and Eurasia				
First Investment Bank	0.00%	57.31%	76.72%	92.41%
Nadra Bank	0.25%	4.91%	16.98%	46.52%
Converse Bank	0.00%	40.72%	74.4%	
Zagrebacka Bank	0.00%	18.38%	50.54%	
SDM Bank	0.00%	12.11%	32.5%	66.11%

Utilization Trends

Be concerned if:

- Non-payment of the origination fee
- Refusal to fulfill conditions precedent
- Breakdown in communication between various levels of the bank
- Change in management

Technical Assistance may be needed if:

- Lack of knowledge on how to modify underwriting criteria for a new loan product
- Difficulty identifying bankable projects
- Regulatory constraints

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Utilization Troubleshooting

Communicate frequently with the bank – and ask a lot of questions:

- Has senior management changed?
- Do loan officers know how to utilize the guarantee?
- In what way is the bank promoting the guarantee within the bank?
- How is the bank marketing loans (not the guarantee) to potential clients?
- Is there confusion about the legal agreement?
- Do they understand how to do the QLS reports?

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Utilization Troubleshooting

Other illustrative questions:

- Do they understand how to use CMS?
- Are they waiting for an origination fee bill?
- In what timeframe does the bank think it can begin utilization?
- How much utilization does the bank think it will have in the first reporting period?
- How fast does the bank expect to exhaust the guarantee?
- Does the bank understand that the duration of the guarantee is different than the working life of the guarantee because of sub-loan terms?

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Utilization Troubleshooting

- Technical assistance
  - •Offer targeted TA
  - •Evaluate quality/ appropriateness of TA being provided
- Restructure the guarantee
  - •Be aware about the risk/cost implications
  - •Consider reducing the guarantee size
  - •Engage RLA
  - •Come to consensus with bank that this is the best "next step"
  - •Draft reduction in size amendment (done by RLA)

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DCA Guarantee Termination

- If nothing else works, terminate the guarantee
  - Communicate the bank, trying to come to agreement
  - Draft termination letter (done by RLA)
  - Terminate agreement
  - Begin de-obligation process

- Mission can get subsidy money back if:
  - The guarantee is terminated and no loans have been placed under coverage, or
  -The guarantee is reduced in coverage. The proportional amount of the subsidy is available for de-obligation.

Claims on the Guarantee

Lender

1. Must pursue all reasonable collection efforts.
2. Completes, certifies, and submits "Request for Payment of Claim" form.
3. Shares any recoveries with USAID using the "Certification of Post-Claim Recoveries" form.

Mission / Chemonics

1. Monitors that defaulted loan qualified, lender has pursued reasonable collections, and lender has adjusted financial statements.
2. Follows up with lender immediately to determine core problem behind claims.
3. Processes forms.
4. Ensures recoveries are shared.

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Lender Forms

APPENDIX 1

REQUEST FOR PAYMENT OF CLAIM

[address]

Pursuant to Section 4.02 of Guarantee Agreement No. _____ (the "Agreement") entered into between USAID and _____________ (the "Guaranteed Party") on [date], we hereby request that you make the following payment with respect to the following loan (the "Loan"):

I. Loan Description: Indicate the following:

(a) Date For Certification of Qualifying Loan Schedule in which the Loan first appeared:
(b) Borrower:
(c) Lender
(d) Effective Date:
(e) Date of final maturity:
(f) Principal amount:
(g) Disbursement date(s) (if multiple disbursements, indicate amount disbursed on each date):
(h) Interest rate:
(i) Currency:
(j) Other lenders:
(k) Other guarantors:
(l) Other loans to the same borrower which are covered under the Agreement (indicate effective date, maturity date, principal amount, and interest rate):

II. Claim Terms.

(a) Date(s) of default by the Qualifying Borrower:
(b) Date(s) of demand by the Guaranteed Party on the Qualifying Borrower:
(c) Amount of defaulted principal payment (do not include any defaulted interest payments):
(d) Description of the collection efforts made pursuant to Section 4.01(b) of the Agreement and the total amount collected to date (net of reasonable expenses actually incurred in such collection efforts):
(e) AMOUNT OF CLAIM (default amount(s) less recoveries multiplied by the Guarantee Percentage expressed as a decimal fraction):
(f) Other loans to same borrower which are in default (indicate effective date, maturity date, principal amount, and interest rate):

III. Payment Instructions. The Guaranteed Party requests that payment be made by the method and to the account described below:

[Insert]

IV. Claim Certification. The Guaranteed Party hereby certifies that it has complied with the requirements of the Agreement (including the payment of all Guarantee Fees arising under Section 6.01) and will comply with the requirements of Article V of the Agreement. The Guaranteed Party further certifies that: (a) the Qualifying Borrower has failed to repay the above-stated principal amount due on the Qualifying Loan; (b) the Qualifying Borrower has failed to meet the Guaranteed Party's demand for repayment of the principal amount due on the Qualifying Loan; (c) the Guarantee Party has diligently pursued reasonable collection efforts against the Qualifying Borrower (and any other entity that may be liable on the Qualifying Loan), in accordance with applicable laws and standard banking practice in [country]; and (d) after such collection activities, the Guaranteed Party has (1) certified to USAID that it has written off the entire outstanding balance (including principal and interest) of the Qualifying Loan as a bad debt expense, or (2) certified to USAID that it (A) is unable, because of a legal impediment or significant impracticality, to take the action described in (1) above, and (B) has established a specific provision of funds (which is evidenced on its balance sheet or income statement) for possible loan losses associated with the default by the Defaulting Borrower, and the amount of such provision equals or exceeds 20% of the amount of defaulted principal.

By:______________________________
Name:____________________________
Title:_____________________________
Date:_____________________________

Appendix 2

Qualifying Loan Schedule (QLS)

Guaranteed Party: **Maximum Portfolio Amount:** **Guarantee Ceiling:** **Guarantee No.:** **USAID Operating Unit: USAID/[Insert name of country]**	**Reporting Period:** **Page _ _ _ _ of _ _ _ _**

(1) Name of Borrower / Purpose of Loan / Type of Business	(2) Date of Qualifying Loan (yyyy/mm/dd)	(3) Loan Type (Term Loan, Line of Credit or Other Types of Credit)	(4) Date Placed Under Coverage (yyyy/mm/dd)	(5) Maturity Date (yyyy/mm/dd)	(6) Interest Rate (annualized rate, only to be entered in QLS if not using CMS database)	(7) Amount of Qualifying Loan (in Local Currency)	(8) **Principal Balance, Beginning of Reporting Period**	(9) Disbursements To the Borrower During the Reporting Period	(10) Repayments From the Borrower During the Reporting Period	(11) **Principal Balance, End of Reporting Period = (8) +(9) – (10)**	(12) Date Removed From Guarantee Coverage (yyyy/mm/dd)

The Qualifying Loan Schedule (QLS) is to be kept up to date and in chronological order as Loans are placed under guarantee coverage and removed from coverage. A Loan is placed under coverage by making entries in columns 1 – 7. Columns 8-11 are adjusted at the end of each reporting period. A Loan is removed from coverage by making an entry in column 12 only if column 11 has a zero balance. This form should be duplicated when additional pages of the QLS are needed. Each page must be numbered in chronological order.

APPENDIX 3

CERTIFICATION FOR QUALIFYING LOAN SCHEDULE

U.S. Agency for International Development
(Address)

Attention:

Ref: Loan Portfolio Guarantee Agreement No. DCA – [insert guarantee no.]

Attached is the Qualifying Loan Schedule for the following Guarantee Period:

______________________ through ______________________.

Reference is hereby made to the Agreement [insert guarantee no.] (the "Agreement"), dated ___, 200_, between the U.S. Agency for International Development ("USAID") and [insert name of Guaranteed Party] (the "Guaranteed Party"). Capitalized terms used but not defined in this certificate shall have the meanings assigned thereto in the Agreement. The Guaranteed Party hereby certifies that, as of the date hereof: (i) the Loans identified in the attached Qualifying Loan Schedule are Qualifying Loans as defined in the Agreement; (ii) the placement of such Loans under the coverage of the Agreement will not cause the Maximum Authorized Portfolio Amount, the Maximum Cumulative Disbursements or the Maximum Cumulative Principal Amount of Loans Per Qualifying Borrower (see paragraphs 1, 2, and 14, respectively, of the Guarantee Term Sheet) to be exceeded; and (iii) all of the information hereby submitted with respect to such loans is true and correct.

[Include Certification of Post-Claim Recoveries with the Qualifying Loan Schedule if a claim has been paid under the Agreement]

Guaranteed Party

____
By (Signature)

____
Name (please print)

____
Title (please print)

____
Date

APPENDIX 4

CERTIFICATION OF POST-CLAIM RECOVERIES

U.S. Agency for International Development
(Address)

Attention:

Ref: Loan Portfolio Guarantee Agreement No. DCA – [insert guarantee no.]

Capitalized terms used but not defined herein shall have the meanings assigned thereto in the guarantee agreement No. [insert guarantee no.] (the "Agreement") dated __________, between the United States Agency for International Development (USAID) and [insert name of the Guaranteed Party](the "Guaranteed Party"). The Guaranteed Party hereby certifies that it was paid [insert amounts] by USAID in connection with claims submitted under the Guarantee Agreement.

The Guaranteed Party further certifies that, as of the date hereof, it has received [insert amount of recoveries net of reasonable collection costs incurred] in Recovered Funds (as defined in Section 5.02 of the Guarantee Agreement). Such amount is net of [ ] in reasonable collection costs incurred by the Guaranteed Party in pursuing such recoveries. [Insert brief description of collection efforts and related costs incurred].

The Guaranteed Party acknowledges that USAID may refuse to honor any claims under the Agreement if the specified amount of Recovered Funds above is not accurate.

Guaranteed Party

____
By (Signature)

____
Name (please print)

____
Title (please print)

____
Date

APPENDIX 5

KEY INDIVIDUAL CERTIFICATION
NARCOTICS OFFENSE AND DRUG TRAFFICKING

I hereby certify that within the last ten years:

1. I have not been convicted of a violation of, or a conspiracy to violate, any law or regulation of the United States or any other country concerning narcotic or psychotropic drugs or other controlled substances.

2. I am not and have not been an illicit trafficker in any such drug or controlled substance.

3. I am not and have not been a knowing assistor, abettor, conspirator, or colluder with others in the illicit trafficking in any such drug or substance.

Signature: ______________________________
Date: ______________________________
Name:
Organization:
Position:
Address:
National ID#:
Date of Birth:

NOTICE:

1. You are required to sign this Certification under the provisions of 22 CFR Part 140, Prohibition on Assistance to Drug Traffickers. These regulations were issued by the Department of State and require that certain key individuals of organizations must sign this Certification.

2. If you make a false Certification you are subject to U.S. criminal prosecution under 18 U.S.C. 1001.

Local Professional DCA SOW

JOB DESCRIPTION

SAF/DCA Manager

The SAF/DCA Manager is responsible for all grants and subcontract activities of Rural SPEED and manages the DCA relationship between participating bank, USAID Uganda and USAID Washington. S/he takes the lead on development of procedures and templates for the subcontracting process, as well as procedures and templates for the Grants Program as well as spearheads all DCA activities.

Responsibilities (SAF specific)

- Develop the Strategic Activities Fund Manual, incorporating guidelines for application, review, selection, award and monitoring of grant activities;
- Develop procedures for provision of training and grants monitoring procedures to grantees
- Review all Scopes of Work, Requests for Proposals (RFP), and Requests for Applications (RFA) with respect to provision of grants and subcontracts there under
- Receive and participate in the review of all proposals in response to RFPs and RFAs;
- Document the selection and award process of fixed price subcontracts and grants, including commodity purchases;
- Review all MOUs with Rural SPEED clients as it related to the SAF;
- Coordinate execution of all subcontracts and grant agreements;
- Develop and maintain a tracking system for subcontracts and grants;
- Insure that justification memoranda for all activities subcontracted without competition are completed;
- Insure the preparation of negotiation memoranda demonstrating cost-reasonableness of all subcontract prices;
- Certify and document deliverables (for fixed price subcontracts) and performance reports (for grants) prior to requesting payment to subcontractors and grantees;
- Monitor subcontract implementation and undertake grantee audits as necessary;
- Work with the Administrative Assistant to insure the coding and maintenance of an up-to-date inventory of all commodities provided to subcontractors and grantees.

Responsibilities (DCA specific)
- Receive applications for coverage of loans under the DCA, vet the applications for eligibility, process and communicate approval (or disapproval) of the loans coverage
- Monitor banks to ensure fee payment when due
- Liaise with, and vet the banks to ensure proper and timely semi annual and annual reporting is done on the Web Based CMS reporting system
- Develop and maintain a data base of DCA usage by all the participating banks by the different programs
- Process applications for reimbursements from the banks and follow up with USAID Washington to the point when the payments are made
- Monitor DCA portfolio with regard to outstanding loans and potential losses

- Work with banks to insure appropriate collections practices for any claims
- Meet regularly with participating banks to insure compliance with DCA agreements, market its usage and attend to any matters arising from the banks
- Encourage participating banks to utilize the DCA in areas wherein they previously had limited experience, particularly with regard to agriculture loans
- Propose new opportunities for additional DCA leverage
- Work closely with USAID to insure appropriate contracting procedures
- Interface with APEP with regard to joint management of the CM DCA
- Prepare quarterly summary reports and any ad hoc reports as required

Reports to: Chief of Party

Lender Welcome Packet

WELCOME TO DCA:

A BRIEF GUIDE ON HOW TO USE YOUR USAID CREDIT GUARANTEE

USAID would like to congratulate you for accepting a Development Credit Authority (DCA) guarantee. In order for you to better understand how the guarantee works, we have outlined the two major activities involved with the guarantee from this point forward:

1. Preparing to use the guarantee
2. Using the guarantee

This brief guide is intended to assist in the implementation of the DCA guarantee agreement.* If you have any questions about information contained in this document or the guarantee agreement, please contact USAID – your local USAID office or USAID/Washington (insert phone/email).

1. PREPARING TO USE THE GUARANTEE

Conditions Precedent

Prior to using the DCA guarantee, you should make sure that you have provided all the necessary information that is required in the "conditions precedent" section of the legal agreement (typically, Article XIII). "Conditions precedent" are those conditions which must be satisfied before a DCA guarantee becomes operational. In other words, you cannot place any loan(s) under DCA guarantee coverage until and unless these conditions are satisfied.

The following is a standard list of some of the documents that are required. Additional information may be required in your guarantee agreement. Keep in mind that not only do you need to submit this information to USAID; you also need to receive notification from USAID that the information is adequate.

- Business plan of intended use of guarantee and identification of the bank employee(s) who will serve as the primary contacts for the guarantee
- A legal opinion stating that based on information presented to legal counsel by your institution, the representations contained in Sections 9.01 through 9.03 of Article IX are true and complete – for example, that your institution exists and has the independent authority to enter into this guarantee agreement with USAID
- An Officer's Certificate that the representations contained in Sections 9.04 through 9.07 of Article IX are true and complete – for example, certifying that your institution has not been involved with illegal drug trafficking or terrorism

Origination Fee Payment

- You will not receive a "bill" for the origination fee that is described in the legal agreement. The agreement itself is your notice to pay the origination fee.

* Nothing in this brief guide is intended to amend or alter the terms of the guarantee agreement you entered into with USAID. In the event of a conflict between this brief guide and the guarantee agreement, the latter takes priority.

- This origination fee is typically expressed as a small percentage of the ***Guarantee Ceiling*** of your guarantee, but the legal agreement should also state it as a nominal value in either U.S. dollars or local currency that must be paid to USAID. The ***Guarantee Ceiling*** is the maximum amount or limit that USAID would reimburse you for defaulted loans. In most cases, it is equal to 50 percent of the total amount of credit that can be placed under DCA guarantee coverage.
- Unless otherwise stated, the legal agreement indicates that your origination fee is due within 30 days of signing the agreement.
- You have two payment options. If the "Currency of Fee Payment" on the guarantee agreement specifies US dollar payments, you will wire transfer funds to the Federal Reserve Bank account below. Otherwise, you will make local currency payments to USAID's local office as stated below.
- The currency of the fee payment will be clearly identified in the first two to three pages of the guarantee agreement you signed with USAID. Following are more detailed instructions as to how you should make these payments:

US DOLLAR PAYMENTS
Wire transfer to the U.S. Treasury:
ABA#: 021030004
Federal Reserve Bank of NY
To the credit of US Treasury
Type Code: 15 (for banks outside the US)
Acct#: ALC72000001, Ref: USAID a/c 72x4266, [Insert DCA Guarantee Number]

LOCAL CURRENCY PAYMENTS
Check payable to "USAID" to be sent/delivered to USAID Controller (cashier) in-country:
Reference to include on check:
"USAID a/c 72X4266, [Insert Guarantee Number]

2. USING THE GUARANTEE

<u>Placing Loans Under Coverage</u>

- Definitions: A ***loan portfolio guarantee (LPG)*** will allow you to place more than one loan or borrower under coverage until six months prior to the end of the guarantee unless stated otherwise in the guarantee agreement. In the case of a ***loan guarantee***, you will typically extend one loan to a single borrower that is already identified.
- If you have a DCA ***LPG***, the key aspects of placing loans under coverage are how "qualified borrowers" and "qualified loans" are defined in the ***term sheet*** and Article II of your guarantee agreement. The ***term sheet*** is the first few pages of the guarantee agreement that summarize the characteristics of your DCA guarantee with USAID – for example, the term or duration of the guarantee, the amount and currency of loans that can be placed under coverage.
- You should verify if the guarantee agreement requires pre-approval from USAID before placing the loan(s) under guarantee coverage or if you are required to notify USAID of the loan(s) placed under guarantee coverage within a certain time period.

Credit Management System (CMS)

- According to the guarantee agreement, you are required to submit certain reports to USAID on a regular basis. We request that you submit these reports electronically through our Internet-based system, the Credit Management System (CMS). In CMS, the reports are called "Loan Schedules". Because CMS is located on the Internet, you will not be required to download any software on to your computer. If you do not have adequate Internet access, we have an alternative Microsoft Excel-based file that can be used to submit the report to USAID.
- In order to access CMS, you will need a username and password. Please send an email to cms@usaid.org to request CMS access. You will then receive a self-guided, on-line tutorial, which should only require 30 minutes of your time. Once you have completed the tutorial, we will provide you with a username and password for the CMS site – https://admin.cms.usaid.org.
- Comprehensive instructions can be found in a CMS User's Guide from the "Help" screen within CMS. This User's Guide, as well as the tutorial, is available in French, Russian and Spanish.

Semiannual Reports

- The DCA guarantee typically requires semiannual (twice a year) reports to be submitted through CMS to USAID to identify the loan(s) placed under coverage and the outstanding balances of these loans at the end of each reporting period. To calculate outstanding balances of these loans, we require that you provide two pieces of information:
  1.) The amount of funds that your institution provided to the borrower during the six-month period – these borrowings are termed "**disbursements**".
  2.) The amount of funds that the borrower re-pays to your institution – USAID uses the term "**payment**" for these repayments.
- Disbursements to the borrower less any repayments from the borrower result in the ending balance of funds owed by the borrower to you.
- There are two standard reporting periods:
  - October 1—March 31
  - April 1—September 30
- You must submit your reports to USAID within thirty (30) days of the end of the report periods – by April 30 and October 31.

Utilization Fee Payments

- The utilization fee is based on an average outstanding balance of the loans under guarantee coverage. This average is a simple calculation: add the ending balance of the current reporting period and the previous reporting period and divide by two. This average is then multiplied by the percentage of DCA guarantee coverage, generally 50 percent. The fee rate, as stated in the legal guarantee agreement, is "semi annualized" (i.e. divided by two). This semi annualized fee rate is then applied to the result of the prior calculation to determine the fee that your financial institution must pay USAID for ongoing guarantee coverage. The following example provides further clarification of this calculation.

Example of Utilization Fee Calculation

Guarantee Percentage:	50%
Annual Utilization Fee:	1.0%
March 31, 2005 balance:	2,000,000 pesos
September 30, 2005 balance:	4,000,000 pesos

<u>STEPS:</u>

1. Average Outstanding Balance for period *April 1 – September 30, 2005* =
   (2,000,000+4,000,000)/2 = 3,000,000 pesos
2. Guaranteed Portion of Average Outstanding Balance =
   3,000,000 x 50% = 1,500,000 pesos
3. Semiannual Utilization Fee Rate =
   1.0%/2 = 0.5%
4. Utilization Fee calculation =
   0.5% x 1,500,000 pesos = 7,500 pesos

- USAID reviews the data in the reports and contacts you if there are any questions. Once we consider the reports to be complete and accurate, we will inform Riggs Bank to send you a utilization fee bill – this is called a Notice of Payment Due (NPD). The NPD will show you how the bill was calculated and state the payment due date, which is thirty (30) days from when Riggs Bank sends you the NPD.
- Payment options (see above with origination fee payment). For all payments to be made in a local currency (i.e. not U.S. dollars), payments must be made to the local USAID office.

Annual Data Questionnaires

- The information that USAID collects from you on a semiannual basis does not provide much insight into the impact of the DCA guarantee. Therefore, once a year, USAID will request that you complete a brief Annual Data Questionnaire (ADQ) so USAID can better understand the lending activities guaranteed by USAID. We would greatly appreciate if you take the time to respond to this request. The ADQ, which is based in CMS, should take no more than thirty (30) minutes to complete. It asks a few questions about your institution's lending portfolio, other quantitative measures that you may track, and a few qualitative questions specific to the impact of the DCA guarantee.
- CMS will notify you via email on June 1 of every year that your ADQ is due by June 30.
- If you have any questions about the ADQ, please send an email to cms@usaid.org.

Claims

- If a loan that is covered by the guarantee is in default, there are usually four steps that you must follow before USAID is obligated to pay a claim. A '***claim***' is a request to USAID for the partial payment of your loss on a defaulted loan. In other words, the claim payment request should equal 50 percent (or the level of guarantee coverage for your particular DCA guarantee) of the outstanding amount still owed by the borrower to your financial institution. Typically, DCA guarantees exclude interest owed by the borrower, so in most cases you must report only principal losses as a basis for your claim payment request. The four required steps that you must follow are:

1. Issue a notice/letter of demand to the borrower for the full amount owed.
2. Pursue collection efforts on the defaulted loan per your standard operating procedures for any defaulted loan. You should clearly document or file these collection efforts in case we ever request further evidence on the defaulted loan(s).
3. Allow for a minimum of ninety (90) days to pass from the date of issuing a demand for full repayment before you can submit a claim request to USAID. This is a minimum length of time to show 'reasonable' collection efforts you have tried to collect on these defaulted loans.
4. Certify that the loan has either been written-off as a bad debt expense or provisioned as a loan loss. Either of these items should be supported by specific accounting entries showing an impact on the income statement or balance sheet.

- Following completion of these four steps, you can submit a claim payment request to USAID. Please submit this claim to both the local and Washington offices of USAID. Contact information for both offices is provided in the guarantee agreement's ***term sheet***. You should use the form provided to you in the guarantee agreement; typically included as Appendix 2. If you have numerous claims to submit at the same time, we have a revised format based in Microsoft Excel that would make preparation of this form faster for you.
- After USAID review and approval of the claim payment request, we will process the claim within a targeted deadline of forty-five (45) days from the claim submission date. This deadline is feasible only if all your reporting and fee payments are current and if there are no problems identified during our review of claim documentation submitted to USAID. You will receive payment through the local USAID office.
- Lastly, please remember that you are required to share with USAID any recoveries that you receive, net of collection expenses, following this claim payment. Recoveries are to be shared based on USAID's guarantee percentage, which is usually 50 percent. We will send out annual notices on post-claim recoveries for you to update by the first week of June of every year.

TAB 14: MONITORING & REPORTING
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Chemonics International Inc., 1133 20th St. NW, Washington, DC 20036
Telephone 202.955.3300, Fax 202.955.3400, www.chemonics.com

Presentation: DCA Monitoring & Reporting

DCA Monitoring & Reporting

August 25, 2005

Chemonics International

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Mission Role

Field support to EGAT/DC

- **Bank reports**
  - Ensure reports sent by lender (typically due twice a year by Oct. 31 and April 30).
  - Assist with any follow-up required if reports are late.
- **Calling plans**
  - EGAT/DC Relationship Managers (RM) may request assistance from Mission to contact bank partners on a required regular basis.
  - EGAT/DC will provide you an update on utilization and unresolved issues prior to the call.

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Calling Plan

Bank update

- Any changes in bank strategy, management or ownership?
- Any changes in the banking sector or the overall economy that have affected the bank's financial health?
- Any recent credit ratings of the bank?
- New products or new branches?
- New contact information?

Guarantee update

- How has it been used thus far? Any problems?
- Any specific plans to expand utilization of the guarantee?
- Discussion of any outstanding reports/fees

****Customer service emphasis – what can USAID do to ensure this guarantee is used as planned, and is successful?****

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Mission Support to EGAT/DC

Fees collections

- Fees billed USAID/Washington FM/LM contractor, Riggs Bank.
- If paid in local currency, bank will drop off check at mission cashier.
- If fees are late, EGAT/DC may request follow-up assistance from Mission.

Claims processing

- Once a mission becomes aware of a claim, or even a potential claim, please inform EGAT/DC –
- Exception Reports, phone call, or email

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Annual Site Visit

Mission Conducts Annual site visits to the lender:

- Based on the Financial Monitoring Plan.
- Because it's an OMB requirement for guarantees with substantial loan volume, signs of deterioration in loan quality, high default rates. (If performance is Ok, Mission site visit can be completed in conjunction with EGAT/DC biennial review).
- Sends EGAT/DC a summary of findings.

Annual Site Visits

Preparation and Unresolved issues

•Contact EGAT/DC to obtain update on any unresolved monitoring or compliance issues

•Clarify with bank how USAID can help ensure that these issues will be resolved

Country Status

•Thus far, EGAT/DC has used *Economist Intelligence Unit* reports available through the USAID/W library

•This information could be supplemented with insights from Mission staff of political and economic conditions, as well as noteworthy current events

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Annual Site Visits

Bank Status – Are there any recent or predicted changes in the:

- Bank's ownership (mergers/acquisitions), management or strategy?
- Banking sector that have impacted the bank's financial status and loan portfolio?
- Bank's performance? – EGAT/DC can provide data from BankScope database, most recent annual report, and perhaps an updated CAMELS assessment:

Capital Adequacy – stable equity in proportion to debt
Asset Quality – non-performing loans and loan default rates compared to the overall portfolio
Management – Quality of management team
Earnings – net income; financial productivity
Liquidity – "Liquid" assets in comparison to customer short-term deposits; loans as a percent of total assets
Sensitivity – to market factors

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Annual Site Visits - Borrowers

Borrower Site Visit

- Coordinate with EGAT/DC to decide if there are any reasons to pick 1-2 borrowers to visit or let the bank decide
- The visit should be conducted without direct communication of the USAID guarantee because often borrowers are not, and should not be, aware of DCA.
- One approach to use is a "USAID-sponsored banking sector study" or study of Sector X.

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Annual Site Visits - Borrowers

Questions for Borrower

- How much have you borrowed from the bank?
- What was the purpose of the loan?
- How did you use the borrowed funds?
- What have been the benefits to you from having received this loan?
- How do you budget your (monthly) loan payments?

Questions for Bank

- What is the current status of repayment?
- How is this loan justified as a proper use of the guarantee? In other words, why would you not have approved this loan without DCA?

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Annual Site Visits – Loan File Review

- In case EGAT/DC cannot conduct the review on-site, they will request assistance in collecting a sample of loan files

Original loan approval/agreement – confirm that the dates and term of the loan match CMS records also look for wording of loan to ensure it was a new loan and not labeled as a "renewal" of previous debt.

Proof of disbursement – receipt of check/print-out from system.

Amortization Schedule – this shows the repayment plan so we can match how principal and interest payments were scheduled.

Updated summary of payments – verify how the bank has tracked actual payments against the original schedule; ensure that the ending balance matches CMS data.

Summary of collection efforts – if the loan is "in arrears" (borrower is late with payments), review file for list of telephone calls, letters or visits to the borrower

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Bank Role

Semiannual Reports

- As loans are placed under coverage, the bank can enter basic loan information into CMS: borrower name, loan amount, loan date, maturity date, etc.
- Reports are called Qualifying Loan Schedules (QLS) – list of loans under coverage, which summarizes funds exchanged between these borrowers and the bank
- Reports in CMS are due by April 30 and October 31
- Focus of EGAT/DC monitoring: disbursements, ending balances, days in arrears

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Bank Role

Semiannual Fees
- Reports, once checked for compliance by EGAT/DC, will be the basis for calculating utilization fees.
- Any foreign currency conversions required for QLS balances are calculated at quarterly Treasury exchange rates – http://fms.treas.gov/intn.html.
- Riggs Bank sends Notice of Payment Due to be paid within 30 days.

Annual Surveys/Financial Statements
- Once a year in June, banks required to send EGAT/DC audited financial statements.
- EGAT/DC requests through CMS, that banks complete a brief survey every June on the impact of the guarantee.

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Claim Payments and Recoveries

- Qualifying Loan Schedule (QLS) should accurately reflect "days in arrears" and the outstanding, unpaid balance.
  - "*Days in Arrears*" are the total number of days in which a borrower is behind in principal and interest payments. The claim amount cannot exceed 50% of the loan's outstanding QLS balance.
- Bank must pursue "reasonable" collection efforts.
  - "Reasonable" implies that the bank should pursue collections on the amounts owed to the bank according to its standard procedures. If ever requested, the bank should be able to produce evidence of these collection efforts.

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Claims and Recoveries

- The Bank must wait 90 days after "demand for full payment" letter to submit claim to USAID.
  - The bank must issue a notice to the borrower that the full amount of the loan is due or payable – not just a recent overdue payment.
  - 90 days assures USAID that the loan has remained in default despite collection efforts and this notice.
- Loan is either provisioned or written off as a 'bad debt expense'.
  - Due to DCA risk-sharing, some assurance is required that the bank has recognized a loss in its accounts for this defaulted loan.
  - In most countries, banks cannot declare the principal and interest as a bad debt expense – a loss on the bank's income statement; so we require that the bank must certify that it has established a 'loan loss provision.'

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Claims and Recoveries

- STEP 1: Mission ensures that EGAT/DC receives claim
- STEP 2: EGAT/DC reviews claim for compliance
  - The Bank is current with reports and fees
  - Claim amount matches most recent balance on semiannual report
  - Dates on report match with legal requirements
  - Comparison of claim amount to total utilization and subsidy for possible further investigation
- STEP 3: EGAT/DC requests Mission Clearance; Mission clears on claim payment
- STEP 4: EGAT/DC and FM process claim payment (with support from Mission Controller)

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Claims and Recoveries

Definition: Recoveries are funds received by the bank from the borrower or liquidation of the borrower's collateral following a claim payment.

- Banks are required to share recoveries, net of their collection expenses, with USAID on a "pari passu" basis – *pari passu* implies 50% sharing in most cases with DCA.

- EGAT/DC sends out annual notices every June to banks that have received claim payments as a reminder to pursue recoveries according to the bank's standard policies and procedures.

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Standard DCA Monitoring Plan Template

DEVELOPMENT CREDIT AUTHORITY (DCA)
MONITORING PLAN

Monitoring is a coordinated effort between the Mission and the Office of Development Credit (EGAT/DC). Monitoring responsibilities are divided into Development and Financial activities. **The mission is solely responsible for Development Monitoring of the loan portfolio guarantee (LPG); financial monitoring, throughout the period of the activity, rests with both EGAT/DC and the Mission.**

DEVELOPMENT MONITORING

TO BE COMPLETED BY MISSION (how does the Mission intend to monitor how the DCA guarantee will contribute to its SOs/IRs. Please include indicators that the Mission plans to collect.

FINANCIAL MONITORING

Financial Monitoring activities include ensuring that fees are paid, reporting requirements are met, documenting completion of conditions precedent (when applicable), making site-visits, and closing out the facility upon expiration. The EGAT/DC Portfolio Management (PM) team takes primary responsibility for Financial Monitoring. EGAT/DC will create and manage source files for all DCA facilities and be the primary resource for financial reporting on DCA activities within the Agency.

The coordinated effort in monitoring requires that the Mission and EGAT/DC staff work as a team. The Mission establishes and maintains the primary relationship with the partner financial institution (FI), or guaranteed party, and acts as the liaison between the FI and the EGAT/DC in Washington. The liaison role is supported by the EGAT/DC Project Development (PD) team Relationship Manager who together with the Mission ensure:

- Frequent contact with the FI's management.
- Timely and compliant submission of required documents and reports.
- Prompt remittance of USAID origination and utilization fee payments from FIs.
- Communication with EGAT/DC Portfolio Management if problems arise or certain conditions change that either reduce or improve the financial stability of the FI or the Borrowers.

This monitoring plan outlines detailed requirements for Financial Monitoring activities. A monitoring plan may include additional monitoring duties if deemed necessary by Mission Officer(s) responsible for a DCA activity and/or EGAT/DC Relationship Managers. These additional duties may arise due to the particular structure of the guarantee facility, the status of the guaranteed party or the desired development outcomes. The duties detailed below are performed throughout the life of the guarantee facility. Each monitoring activity must be conducted according to this monitoring plan. The EGAT/DC PM team will ensure that the DCA files in Washington are maintained to document all monitoring activities as outlined in this plan.

i. REPORTING

For examples of any of the following reports, templates should be included as an attachment to the legal agreement signed between USAID and the guaranteed party. Prior to signing this agreement, Missions should contact EGAT/DC for examples/templates.

If the DCA activity is a Portable Guarantee (PG), please disregard this Reporting section. The only monitoring activities related to PGs generally include the identification of a qualified lending institution within a specified timeframe.

a) TRANSACTION REPORT (TR)

This section is applicable only to Loan Portfolio Guarantees (LPG). If this DCA guarantee is not a LPG, skip to Section [i].(b) - Qualifying Loan Schedules (QLS).

Most LPGs require the guaranteed party to submit a Transaction Report (TR) for each loan that is placed under guarantee coverage. A TR is a data sheet containing information about the loan and the borrower. In the case of large volume LPGs, TRs can be structured to be extremely concise with only key data required, such as the loan date, borrower name, loan amount, loan purpose. Guaranteed parties submit TRs to the Mission and to EGAT/DC through an Internet-based system – Credit Management System (CMS). CMS will only track the basic information of a TR. If there is specific performance compliance data to check, e.g. asset size of borrower, the guaranteed party may still be required by the Mission to submit paper or electronic TRs. The frequency of submitting TRs varies. They can be entered in CMS in "real time" as the loans are placed under coverage. Alternatively, Missions may decide to allow banks to submit TR data with QLS information on a semiannual basis.

Missions and EGAT/DC will review CMS data, or paper/electronic TRs if required, to ensure that the guaranteed party submits TRs that are compliant with the legal agreement. The loan is assumed to be approved for guarantee coverage unless USAID contacts the guaranteed party to further clarify the proper enrollment of loans under coverage.

b) QUALIFYING LOAN SCHEDULE (QLS)

Most DCA activities require that the guaranteed party submit a Qualifying Loan Schedule (QLS) every six months.[1] Typically, these QLS reports correspond with guarantee periods from October 1 – March 31, and then April 1 through September 30. The QLS is a status report on all new loans placed under coverage, outstanding loans, and loans taken off coverage during the past six months. The summary level figure of each QLS that is most important from the utilization and USAID risk exposure perspective is the ending principal balance. This is relevant for all guarantee types – LPGs, loan or bond guarantees.

EGAT/DC ensures financial compliance of every QLS and it will report any non-compliance to the Mission for resolution or directly discuss these issues with the guaranteed party if previously agreed to by the Mission. QLS non-compliance may occur frequently if the guaranteed party does not fully understand reporting procedures or the legal agreement terms and conditions. In some cases, several email and/or telephone communications may be necessary to resolve non-compliance issues. Furthermore, a Mission or EGAT/DC site visit to or meeting with the

[1] The current standard for loan and bond guarantee reporting requirements are annual, corresponding with the amortization or repayment of the loan/bond.

guaranteed party may be required if the issues remain unresolved for more than 60 days.

Once in compliance, the QLS serves as a platform to assess appropriate fees, judge the overall risk exposure, document the overall effectiveness of the program, and/or predict future claims.

For LPGs, QLS reports are submitted via the Internet-based Credit Management System (CMS). For other loan and bond guarantees, the guaranteed party will submit either electronic or paper reports, which typically include updated amortization or repayment schedules, as stipulated in the legal agreement. EGAT/DC will ensure those reports are properly entered into CMS for management reporting and utilization fee billing purposes. Missions, guaranteed parties and EGAT/DC will have simultaneous access to CMS to view data and to identify either compliant or non-compliant issues.

ii. FEES

Each DCA activity requires that the guaranteed party remit payment of two types of fees. As stated above, it is the responsibility of the Mission and the EGAT/DC Relationship Manager with support from the EGAT/DC PM team to ensure timely and accurate payment of fees.

a) Origination Fee – One time fee paid upfront. The guaranteed party typically has thirty (30) days from the signing of the legal guarantee agreement to pay this fee. A bill will not be submitted to the Mission or to the guaranteed party. Payment must be made as instructed in the legal agreement. See legal agreement for further information. In regards to the majority of PGs, the identified borrower(s) will pay the origination fee as stipulated in its commitment letter, which serves as the obligating document for this type of guarantee.

b) Utilization Fee – Annual fee that is paid every six months. The fee is based on an average outstanding principal balance during a semiannual period. This is typically calculated by averaging the ending principal balance of the current and previous QLS reports submitted by the guaranteed party. Once QLS report balances are confirmed as compliant by EGAT/DC in CMS, EGAT/DC will contact Riggs Bank to ensure a bill, a "Notice of Payment Due" (NPD) is sent to the guaranteed party with the total amount to be paid. The guaranteed party has thirty (30) days to pay the utilization fee after it receives the NPD. See legal agreement for further information. In regards to PGs, the commitment letter will not entail any utilization fees, which would be paid by the eventual guaranteed party that provides a loan to the borrower. Also, for bond guarantees, utilization fees are typically paid upfront in one lump sum at the time of bond disbursement. This fee is calculated as a net present value of future fees based on forecasted outstanding amounts during the bond guarantee term.

iii. ANNUAL DATA QUESTIONNAIRE (ADQ)

Through CMS, EGAT/DC will request that guaranteed parties complete an ADQ by June 30 every year. CMS will generate emails to the key contacts of all guaranteed parties on or around June 1 to request that they complete the ADQ before the end of the month. ADQ guidance in CMS will recommend that the guaranteed party spend no more than 30 minutes on the ADQ to ensure that this request is not overly burdensome

The purpose of this questionnaire is to obtain qualitative measures of the impact of DCA guarantees. Examples of the questions asked in the ADQ are:

- Collateral. Please describe if your institution has been able to lower its collateral requirements for Qualifying Borrowers because of the USAID guarantee.
- Loan Terms. Please describe if the USAID guarantee has resulted in your institution's ability to lengthen the repayment term (duration or tenor) for loans to Qualifying Borrowers?
- Other. What other impact has the USAID guarantee had on your ability to provide loans to Qualifying Borrowers? (For example, have you been able to make loans to these types of borrowers without the guarantee?)
- Example of a "success story" of the tangible benefits realized by one of the borrowers who productively utilized funds from a DCA guaranteed transaction.

iv. CLAIMS

The following list highlights how DCA claims are processed:

- Guaranteed party submits claim(s) for defaulted loan(s) to the Mission under a covered DCA facility. When the Mission receives the claim, it should forward the documentation to EGAT/DC Portfolio Management (PM) team along with any additional information relevant to this particular guarantee.
- EGAT/DC PM team reviews claim for compliance and prepares paperwork for claim approval.. Any necessary correspondence with guaranteed party will be cleared by the respective the Mission Officer responsible for the DCA activity and the EGAT/DC Relationship Manager.
- EGAT/DC PM team arranges for clearances by Mission Officer, Relationship Manager prior to submitting to EGAT/DC Director for approval.
- Once approved, EGAT/DC PM team commits and obligates funds from the appropriate DCA Financing Account via Phoenix.[2]
- Upon obligation of the claim amount to be paid, the PM team then notifies FM/LM to instruct the Mission Controller to pay the claim.
- The Mission Controller then makes the claim payment, and obtains reimbursement through FM/LM via the Intra-governmental Payment and Collection (IPAC) system.
- EGAT/DC PM team follows up with email/phone contact to Mission Controller to confirm that claim payment has been made available to the guaranteed party.
- FM/LM notifies the EGAT/DC PM team when evidence of the Controller's transaction has been received. EGAT/DC PM team may then need to adjust the obligation amount due to exchange rate differences.

[2] When a DCA guarantee is initially established, the subsidy funds are transferred to the DCA Program Account. As the guarantee is utilized, the subsidy is disbursed proportionally to the DCA Financing Account, where fee payments from guarantee parties are also applied. The combination of subsidy and fees for guarantees obligated within the same fiscal year is the source of funds for claim payments to guaranteed parties.

v. RECOVERIES

The EGAT/DC PM team (with potential field support from the Mission Officer responsible for the DCA activity in case of late responses) will send out annual letters by the first week of June of each year to all FIs that have received a claim payment from USAID.

The letter, signed by the EGAT/DC Director or EGAT/DC PD Relationship Managers, will request that the FI submit a Schedule of Net Recoveries [see template below] by June 30 that identifies all claim payments made to a FI and requests updated data and certification on recoveries received by the FI on these defaulted loans.

SCHEDULE OF NET RECOVERIES

<Bank Name>
<Loan Portfolio Guarantee Number XXX>
< as of DATE >

Defaulted Loan/ Borrowers Name	Date of Qualifying loan	Date of Claim payment	Amount of Claim in USD	Recoveries Received as of <DATE>	Amount of Recoveries Collected by Bank	Date of Recoveries	Amount of Recoveries due to USAID	Expected Date Recoveries to be remitted to USAID

* To be completed by USAID
* To be completed by the financial institution

vi. MISSION SITE VISITS AND EGAT/DC BIENNIAL REVIEWS

Based on OMB Circular A-129, Mission Officer(s) responsible for a DCA activity are required to conduct and report on site visits to the guaranteed party, while the EGAT/DC PM team must conduct biennial reviews of the guarantee. Structures and guidelines for these visits and reviews are provided in the following two tables. Due to the similar nature of the reports described below, the EGAT/DC PM team will coordinate its biennial review with appropriate Mission staff.

Mission Site Visit	
Frequency:	Annually from date agreement is signed, particularly for guarantees with substantial loan volume, signs of deterioration in guaranteed loan(s), high default rates.
Responsible Entity:	Mission Officer responsible for the DCA activity or designee
Responsibilities:	Meet with partner Financial Institution management, establish status of project and determine compliance and performance issues.
Report Outline:	**Preparation**: Summary of telephone/email communication with PM team prior to site visit to understand unresolved monitoring and compliance issues and to review the most current utilization data. **Unresolved Issues**: Discussion of issues from Section I with FI and clarification of how issues are to be resolved. **Country Status**: Update on any country-wide issues that the FI believes is affecting its loan portfolio and/or DCA utilization – economic changes, exchange rate fluctuations, legal/political changes. **Bank Status**: Update on current situation with the financial institution being guaranteed – e.g., personnel, policy or strategy changes, bank performance, merger & acquisition activities. **Borrower Site-Visit**: If possible, request at least one visit to a borrower that received a DCA-guaranteed loan. Summary of visit

Mission Site Visit	
	should include details of: the loan amount, purpose of the loan, loan term, justification for using the DCA guarantee, how it was repaid, and the resulting benefits for the borrower. **USAID Support**: Discussion with FI if USAID can provide any further guidance or assistance in order to promote utilization of and proper reporting on the guarantee. **Conclusion**: Summary of follow-up action items
Delivery of report:	Mission Officer will send completed report via email to EGAT/DC PM team within 30 days of the anniversary of guarantee and EGAT/DC PM team will review the report and ensure that it is appropriately filed. In lieu of this report, the Mission Officer will send EGAT/DC an email to justify that the visit was not necessary. This email will also be filed accordingly.

EGAT/DC Biennial Review	
Minimal Frequency:	Biennially (once every two years) from date agreement is signed or coordinated with a country visit for other purposes
Responsible Entity:	EGAT/DC PM team (with support from Relationship Manager) or designee. If a Mission or its contractor prefers to be responsible for the biennial review, EGAT/DC PM team will review and provide feedback on the biennial report as outlined below.
Responsibilities:	To produce the following report at a minimum of once every two years for a DCA guarantee.
Report Outline: Note: Since the Biennial Report is similar to the Mission On-site Visit Report, EGAT/DC will coordinate its Biennial Review with the Mission to ensure that the FI is not overburdened with similar questions from two different USAID entities.	**Pre-Review Information Gathering**: Review of files to ensure files are current. Analyze recent reporting, fee and claim information to identify any issues that require follow-up with the FI. Data to be summarized and analyzed are: utilization ratios, fees billed and paid, claims net of recoveries as a percent of subsidy + fees, and reporting timeliness. **Unresolved Issues**: Discussion of issues from Section I with FI and clarification of how issues are to be resolved. Also, reminder to FI that have received claim payments of requirement to share recoveries. **Country Status**: Update on any country-wide issues that the FI believes is affecting its loan portfolio and/or DCA utilization – economic changes, exchange rate fluctuations, legal/political changes. **Bank Status**: Update on current situation with the financial institution being guaranteed – e.g., personnel, policy or strategy changes, bank performance, merger & acquisition activities. **Borrower Monitoring**: {if on-site} request to see credit files at the FI on a random selection of at least two borrowers. If possible, request at least one visit to a borrower that received a DCA-guaranteed loan. Summary of visit should include details of: the loan amount, purpose of the loan, the loan term, justification for using the DCA guarantee, how it was repaid, and the resulting benefits for the borrower. **EGAT/DC Support**: Discussion with FI and Mission if EGAT/DC can provide any further guidance or assistance in order to promote utilization of and proper reporting on the guarantee. Conclusion: Summary of follow-up action items
Delivery of report:	EGAT/DC PM team will review this report and ensure that it is appropriately filed. If this report is part of trip report conducted by an EGAT/DC staff member, it will be copied and placed in the appropriate DCA file.

vii. AUDITS

When a guaranteed party submits a claim for payment, the EGAT/DC PM team will monitor the level of claims against the following three criteria:

NOMINAL CHECK	Do cumulative paid and pending claims exceed the equivalent of US$ 25,000?
PORTFOLIO CHECK	Do cumulative paid and pending claims (converted to total loan values) exceed 10% of Cumulative Utilization?
SUBSIDY CHECK	Are cumulative paid and pending claims as a percent of "subsidy plus fees received" above 50%?

Although this three-tiered criteria checklist is primarily applicable to LPGs, which may receive a series of claim payment requests from the guaranteed party, the same guidelines should be utilized for other forms of DCA guarantees. Data related to these three criteria will be included in the summary page provided in the claim package developed by the EGAT/DC PM team. If at least two out of the three criteria result in positive answers, the EGAT/DC PM team will convene to discuss the possibility of an internal review of the guaranteed party's TRs and QLSs. The PM team will then coordinate next steps with the respective Relationship Manager from the EGAT/DC PD team. The Mission will be contacted as necessary, and additional documentation may be requested from the guaranteed party. The PM team, with guidance from the PD team and the Mission, may request a site visit to inspect the credit files of the guaranteed party.

In the event irregularities are found during the EGAT/DC PM team desk or on-site review, an audit should be conducted by an experienced, independent auditor. The EGAT/DC Risk Management (RM) team will coordinate the planning and review of this auditor's performance. The RM team will also conduct this audit with appropriate Mission guidance. Results of this audit will be disseminated between the PM team and the RM team as well as the Relationship Manager to decide on next steps with this DCA guarantee.

The guaranteed party will be required to repay any amounts deemed to have been paid based on disallowed transactions (e.g., unqualified borrowers). If the guaranteed party is judged to have committed fraud, provided erroneous information, or is perceived as unable to carry out the activities and responsibilities of the guarantee, the USAID Office of General Counsel may advise to terminate the agreement following consultations with the Mission and relevant EGAT/DC staff.

viii. BUDGET

- One (1) US Direct Hire SO Team Leader (or Officer responsible for the DCA activity) monitoring implementation of the DCA agreement: x% of time, $x,xxx annually for each year during which loans may be placed under coverage. This is based on an annual salary of $xxx,xxx.
- One (1) FSN Project Management Specialist: x% of time, $x,xxx per year for each year during which loans may be placed under coverage. This is based on an annual salary of $xx,xxx.
- One (1) FSN in the Financial Management Office: x% of time, $x,xxx per year for each year during which loans may be placed under coverage. This is based on an annual salary of $xx,xxx.

- Travel costs to monitor the program overall and conduct random audits of DCA loans, x site visits per year, all trips out of (Mission location), $x,xxx for each year during which loans may be placed under coverage.

Total Annual Cost for Mission: $x,xxx

USAID/W EGAT/DC travel to COUNTRY: $3,450 per trip, 1 trip for every two years is $1,725 per year. Estimated staff time costs for EGAT/DC to monitor this DCA guarantee are:

- EGAT/DC PD and PM team: 7 days per year, $3,500 annually for each year during which loans may be placed under coverage. This is based on an average salary of EGAT/DC personnel of $93,600 and a benefits package of $37,500.
- EGAT/DC PM monitoring contractors: $2,000 annually based on ongoing contract.

Total Annual Cost for EGAT/DC: $7,225

Customized DCA Monitoring Plan for USAID/Jordan

DEVELOPMENT CREDIT AUTHORITY (DCA)
MONITORING PLAN

BANK OF JORDAN – LOAN PORTFOLIO GUARANTEE FOR SME LENDING

Monitoring is a coordinated effort between the Mission and the Office of Development Credit (EGAT/DC). Monitoring responsibilities are divided into Development and Financial activities.

The mission is solely responsible for Development Monitoring of the loan portfolio guarantee (LPG), whereas the responsibility for Financial Monitoring throughout the period of the activity, is shared with both EGAT/DC and the Mission.

USAID/Jordan will be assisted in its Development Monitoring and Financial Monitoring responsibilities by the Achievement of Market-Friendly Initiatives and Results (AMIR) Program through July 2006. The AMIR Program will support USAID approximately two person days/month for the first 3 months, decreasing to one person day/month for the remaining 9 months. Support will include:

- Working with USAID and the bank to promote clear understanding of compliance with the legal agreement, reporting requirements, the definition of qualifying borrowers, and field any other questions or issues that may arise;
- Monitoring bank to ensure fee payment when due;
- Liaising with the bank to ensure proper and timely semi-annual and annual reporting through the internet CMS reporting system;
- Developing and maintaining a data base of DCA usage by the bank;
- Processing claims applications from the bank and follow up with USAID/Washington until the point of claim payment;
- Monitoring DCA portfolio for potential problem loans and potential defaults;
- Working with bank to ensure appropriate collections practices for any claims;
- Encouraging participating bank utilization by facilitating communication and coordination between the bank and appropriate SME strengthening programs, bank training programs, and other initiatives to assist the bank in understanding the SME sector;
- Preparing quarterly summary reports and any ad hoc reports as required;
- Conducting annual site visit if occurring within the timeframe allotted; and
- Training the follow-on entity on DCA and the monitoring role.

DEVELOPMENT MONITORING

This DCA guarantee facility will contribute to the achievement of USAID/Jordan's SO Number 10 – Increased Economic Opportunity for Jordanians. The US Government's Economic Development Goal in Jordan is broad-based, market-oriented growth accompanied by expanding investment, improving standards of living and enhanced economic opportunities for all Jordanians. Three intermediate results support SO Number 10 - Increased Opportunity for Jordanians. These include:

1. Increased access to business services;
2. More effective identification and implementation of policy reforms; and

3. An improved environment for sustained policy reform.

The DCA LPG specifically complements and reinforces IR1: Increased Access to Business Services, in that access to financial services is equally as important as other non-financial aspects of business services such as management capacity building, to facilitating business growth and expansion. The indicators the Mission will use to monitor the guarantee on an ongoing basis are:

1. Percentage utilization of total authorized amount;
2. Number of new loans disbursed by the lender; and
3. Number of SMEs receiving loans.

The Mission will also request that EGAT/DC forward the synthesized information compiled through the Credit Management System (CMS) Annual Data Questionnaire (ADQ) that all guaranteed parties complete annually to obtain qualitative measures of the impact of DCA guarantees. The type of information collected in the ADQ is described further in Section iii.

FINANCIAL MONITORING

Financial Monitoring activities include ensuring that fees are paid, reporting requirements are met, documenting completion of conditions precedent (when applicable), making site-visits, and closing out the facility upon expiration. The EGAT/DC Portfolio Management (PM) team takes primary responsibility for Financial Monitoring. EGAT/DC will create and manage source files for all DCA facilities and be the primary resource for financial reporting on DCA activities within the Agency.

The coordinated effort in monitoring requires that the Mission and EGAT/DC staff work as a team. The Mission establishes and maintains the primary relationship with the partner financial institution (FI), or guaranteed party, and acts as the liaison between the FI and the EGAT/DC in Washington. The liaison role is supported by the EGAT/DC Project Development (PD) team Relationship Manager who together with the Mission ensure:

- Frequent contact with the FI's management.
- Timely and compliant submission of required documents and reports.
- Prompt remittance of USAID origination and utilization fee payments from FIs.
- Communication with EGAT/DC Portfolio Management if problems arise or certain conditions change that either reduce or improve the financial stability of the FI or the Borrowers.

This monitoring plan outlines detailed requirements for Financial Monitoring activities. A monitoring plan may include additional monitoring duties if deemed necessary by Mission Officer(s) responsible for a DCA activity and/or EGAT/DC Relationship Managers. These additional duties may arise due to the particular structure of the guarantee facility, the status of the guaranteed party or the desired development outcomes. The duties detailed below are performed throughout the life of the guarantee facility. Each monitoring activity must be conducted according to this monitoring plan. The EGAT/DC PM team will ensure that the DCA files in Washington are maintained to document all monitoring activities as outlined in this plan.

i. REPORTING

For examples of any of the following reports, templates should be included as an attachment to the legal agreement signed between USAID and the guaranteed party. Prior to signing this agreement, Missions should contact EGAT/DC for examples/templates.

a) TRANSACTION REPORT (TR)

Most LPGs require the guaranteed party to submit a Transaction Report (TR) for each loan that is placed under guarantee coverage. A TR is a data sheet containing information about the loan and the borrower. In the case of large volume LPGs, TRs can be structured to be extremely concise with only key data required, such as the loan date, borrower name, loan amount, loan purpose. Guaranteed parties submit TRs to the Mission and to EGAT/DC through an Internet-based system – Credit Management System (CMS). CMS will only track the basic information of a TR. If there is specific performance compliance data to check, e.g. asset size of borrower, the guaranteed party may still be required by the Mission to submit paper or electronic TRs. The frequency of submitting TRs varies. They can be entered in CMS in "real time" as the loans are placed under coverage. Alternatively, Missions may decide to allow banks to submit TR data with QLS information on a semiannual basis.

Missions and EGAT/DC will review CMS data, or paper/electronic TRs if required, to ensure that the guaranteed party submits TRs that are compliant with the legal agreement. The loan is assumed to be approved for guarantee coverage unless USAID contacts the guaranteed party to further clarify the proper enrollment of loans under coverage.

b) QUALIFYING LOAN SCHEDULE (QLS)

Most DCA activities require that the guaranteed party submit a Qualifying Loan Schedule (QLS) every six months.[1] Typically, these QLS reports correspond with guarantee periods from October 1 – March 31, and then April 1 through September 30. The QLS is a status report on all new loans placed under coverage, outstanding loans, and loans taken off coverage during the past six months. The summary level figure of each QLS that is most important from the utilization and USAID risk exposure perspective is the ending principal balance. This is relevant for all guarantee types – LPGs, loan or bond guarantees.

EGAT/DC ensures financial compliance of every QLS and it will report any non-compliance to the Mission for resolution or directly discuss these issues with the guaranteed party if previously agreed to by the Mission. QLS non-compliance may occur frequently if the guaranteed party does not fully understand reporting procedures or the legal agreement terms and conditions. In some cases, several email and/or telephone communications may be necessary to resolve non-compliance issues. Furthermore, a Mission or EGAT/DC site visit to or meeting with the guaranteed party may be required if the issues remain unresolved for more than 60 days. Once in compliance, the QLS serves as a platform to assess appropriate fees, judge the overall risk exposure, document the overall effectiveness of the program, and/or predict future claims.

For LPGs, QLS reports are submitted via the Internet-based Credit Management System (CMS). For other loan and bond guarantees, the guaranteed party will submit either electronic or paper

[1] The current standard for loan and bond guarantee reporting requirements are annual, corresponding with the amortization or repayment of the loan/bond.

reports, which typically include updated amortization or repayment schedules, as stipulated in the legal agreement. EGAT/DC will ensure those reports are properly entered into CMS for management reporting and utilization fee billing purposes. Missions, guaranteed parties and EGAT/DC will have simultaneous access to CMS to view data and to identify either compliant or non-compliant issues.

ii. FEES

Each DCA activity requires that the guaranteed party remit payment of two types of fees. As stated above, it is the responsibility of the Mission and the EGAT/DC Relationship Manager with support from the EGAT/DC PM team to ensure timely and accurate payment of fees.

a) Origination Fee – One time fee paid upfront. The guaranteed party typically has thirty (30) days from the signing of the legal guarantee agreement to pay this fee. A bill will not be submitted to the Mission or to the guaranteed party. Payment must be made as instructed in the legal agreement. See legal agreement for further information. In regards to the majority of PGs, the identified borrower(s) will pay the origination fee as stipulated in its commitment letter, which serves as the obligating document for this type of guarantee.

b) Utilization Fee – Annual fee that is paid every six months. The fee is based on an average outstanding principal balance during a semiannual period. This is typically calculated by averaging the ending principal balance of the current and previous QLS reports submitted by the guaranteed party. Once QLS report balances are confirmed as compliant by EGAT/DC in CMS, EGAT/DC will contact Riggs Bank to ensure a bill, a "Notice of Payment Due" (NPD) is sent to the guaranteed party with the total amount to be paid. The guaranteed party has thirty (30) days to pay the utilization fee after it receives the NPD. See legal agreement for further information. In regards to PGs, the commitment letter will not entail any utilization fees, which would be paid by the eventual guaranteed party that provides a loan to the borrower. Also, for bond guarantees, utilization fees are typically paid upfront in one lump sum at the time of bond disbursement. This fee is calculated as a net present value of future fees based on forecasted outstanding amounts during the bond guarantee term.

iii. ANNUAL DATA QUESTIONNAIRE (ADQ)

Through CMS, EGAT/DC will request that guaranteed parties complete an ADQ by June 30 every year. CMS will generate emails to the key contacts of all guaranteed parties on or around June 1 to request that they complete the ADQ before the end of the month. ADQ guidance in CMS will recommend that the guaranteed party spend no more than 30 minutes on the ADQ to ensure that this request is not overly burdensome.

The purpose of this questionnaire is to obtain qualitative measures of the impact of DCA guarantees. Examples of the questions asked in the ADQ are:

- Collateral. Please describe if your institution has been able to lower its collateral requirements for Qualifying Borrowers because of the USAID guarantee.

- Loan Terms. Please describe if the USAID guarantee has resulted in your institution's ability to lengthen the repayment term (duration or tenor) for loans to Qualifying Borrowers?
- Other. What other impact has the USAID guarantee had on your ability to provide loans to Qualifying Borrowers? (For example, have you been able to make loans to these types of borrowers without the guarantee?)
- Example of a "success story" of the tangible benefits realized by one of the borrowers who productively utilized funds from a DCA guaranteed transaction.

iv. CLAIMS

The following list highlights how DCA claims are processed:

- Guaranteed party submits claim(s) for defaulted loan(s) to the Mission under a covered DCA facility. When the Mission receives the claim, it should forward the documentation to EGAT/DC Portfolio Management (PM) team along with any additional information relevant to this particular guarantee.
- EGAT/DC PM team reviews claim for compliance and prepares paperwork for claim approval. Any necessary correspondence with guaranteed party will be cleared by the respective the Mission Officer responsible for the DCA activity and the EGAT/DC Relationship Manager.
- EGAT/DC PM team arranges for clearances by Mission Officer, Relationship Manager prior to submitting to EGAT/DC Director for approval.
- Once approved, EGAT/DC PM team commits and obligates funds from the appropriate DCA Financing Account via Phoenix.[2]
- Upon obligation of the claim amount to be paid, the PM team then notifies FM/LM to instruct the Mission Controller to pay the claim.
- The Mission Controller then makes the claim payment, and obtains reimbursement through FM/LM via the Intra-governmental Payment and Collection (IPAC) system.
- EGAT/DC PM team follows up with email/phone contact to Mission Controller to confirm that claim payment has been made available to the guaranteed party.
- FM/LM notifies the EGAT/DC PM team when evidence of the Controller's transaction has been received. EGAT/DC PM team may then need to adjust the obligation amount due to exchange rate differences.

v. RECOVERIES

The EGAT/DC PM team (with potential field support from the Mission Officer responsible for the DCA activity in case of late responses) will send out annual letters by the first week of June of each year to all FIs that have received a claim payment from USAID. The letter, signed by the EGAT/DC Director or EGAT/DC PD Relationship Managers, will request that the FI submit a Schedule of Net Recoveries [see template below] by June 30 that identifies all claim payments made to a FI and requests updated data and certification on recoveries received by the FI on these defaulted loans.

[2] When a DCA guarantee is initially established, the subsidy funds are transferred to the DCA Program Account. As the guarantee is utilized, the subsidy is disbursed proportionally to the DCA Financing Account, where fee payments from guarantee parties are also applied. The combination of subsidy and fees for guarantees obligated within the same fiscal year is the source of funds for claim payments to guaranteed parties.

SCHEDULE OF NET RECOVERIES

<Bank Name>
<Loan Portfolio Guarantee Number XXX>
< as of DATE >

Defaulted Loan/ Borrowers Name	Date of Qualifying loan	Date of Claim payment	Amount of Claim in USD	Recoveries Received as of <DATE>	Amount of Recoveries Collected by Bank	Date of Recoveries	Amount of Recoveries due to USAID	Expected Date Recoveries to be remitted to USAID

* To be completed by USAID
* To be completed by the financial institution

vi. MISSION SITE VISITS AND EGAT/DC BIENNIAL REVIEWS

Based on OMB Circular A-129, Mission Officer(s) responsible for a DCA activity are required to conduct and report on site visits to the guaranteed party, while the EGAT/DC PM team must conduct biennial reviews of the guarantee. Structures and guidelines for these visits and reviews are provided in the following two tables. Due to the similar nature of the reports described below, the EGAT/DC PM team will coordinate its biennial review with appropriate Mission staff.

Mission Site Visit	
Frequency:	Annually from date agreement is signed, particularly for guarantees with substantial loan volume, signs of deterioration in guaranteed loan(s), high default rates.
Responsible Entity:	Mission Officer responsible for the DCA activity or designee
Responsibilities:	Meet with partner Financial Institution management, establish status of project and determine compliance and performance issues.
Report Outline:	**Preparation:** Summary of telephone/email communication with PM team prior to site visit to understand unresolved monitoring and compliance issues and to review the most current utilization data. **Unresolved Issues:** Discussion of issues from Section I with FI and clarification of how issues are to be resolved. **Country Status:** Update on any country-wide issues that the FI believes is affecting its loan portfolio and/or DCA utilization – economic changes, exchange rate fluctuations, legal/political changes. **Bank Status:** Update on current situation with the financial institution being guaranteed – e.g., personnel, policy or strategy changes, bank performance, merger & acquisition activities. **Borrower Site-Visit:** If possible, request at least one visit to a borrower that received a DCA-guaranteed loan. Summary of visit should include details of: the loan amount, purpose of the loan, loan term, justification for using the DCA guarantee, how it was repaid, and the resulting benefits for the borrower. **USAID Support:** Discussion with FI if USAID can provide any further guidance or assistance in order to promote utilization of and proper reporting on the guarantee. **Conclusion:** Summary of follow-up action items
Delivery of report:	Mission Officer will send completed report via email to EGAT/DC PM team within 30 days of the anniversary of guarantee and EGAT/DC PM team will review the report and ensure that it is appropriately filed. In lieu of this report, the Mission Officer will send EGAT/DC an email to justify that the visit was not necessary. This email will also be filed accordingly.

EGAT/DC Biennial Review	
Minimal Frequency:	Biennially (once every two years) from date agreement is signed or coordinated with a country visit for other purposes
Responsible Entity:	EGAT/DC PM team (with support from Relationship Manager) or designee. If a Mission or its contractor prefers to be responsible for the biennial review, EGAT/DC PM team will review and provide feedback on the biennial report as outlined below.
Responsibilities:	To produce the following report at a minimum of once every two years for a DCA guarantee.
Report Outline: Note: Since the Biennial Report is similar to the Mission On-site Visit Report, EGAT/DC will coordinate its Biennial Review with the Mission to ensure that the FI is not overburdened with similar questions from two different USAID entities.	**Pre-Review Information Gathering:** Review of files to ensure files are current. Analyze recent reporting, fee and claim information to identify any issues that require follow-up with the FI. Data to be summarized and analyzed are: utilization ratios, fees billed and paid, claims net of recoveries as a percent of subsidy + fees, and reporting timeliness. **Unresolved Issues:** Discussion of issues from Section I with FI and clarification of how issues are to be resolved. Also, reminder to FI that have received claim payments of requirement to share recoveries. **Country Status:** Update on any country-wide issues that the FI believes is affecting its loan portfolio and/or DCA utilization – economic changes, exchange rate fluctuations, legal/political changes. **Bank Status:** Update on current situation with the financial institution being guaranteed – e.g., personnel, policy or strategy changes, bank performance, merger & acquisition activities. **Borrower Monitoring:** {if on-site} request to see credit files at the FI on a random selection of at least two borrowers. If possible, request at least one visit to a borrower that received a DCA-guaranteed loan. Summary of visit should include details of: the loan amount, purpose of the loan, the loan term, justification for using the DCA guarantee, how it was repaid, and the resulting benefits for the borrower. **EGAT/DC Support:** Discussion with FI and Mission if EGAT/DC can provide any further guidance or assistance in order to promote utilization of and proper reporting on the guarantee. Conclusion: Summary of follow-up action items
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vii. AUDITS

When a guaranteed party submits a claim for payment, the EGAT/DC PM team will monitor the level of claims against the following three criteria:

NOMINAL CHECK	Do cumulative paid and pending claims exceed the equivalent of US$ 25,000?
PORTFOLIO CHECK	Do cumulative paid and pending claims (converted to total loan values) exceed 10% of Cumulative Utilization?
SUBSIDY CHECK	Are cumulative paid and pending claims as a percent of "subsidy plus fees received" above 50%?

Although this three-tiered criteria checklist is primarily applicable to LPGs, which may receive a series of claim payment requests from the guaranteed party, the same guidelines should be utilized for other forms of DCA guarantees. Data related to these three criteria will be included in the summary page provided in the claim package developed by the EGAT/DC PM team. If at least two out of the three criteria result in positive answers, the EGAT/DC PM team will convene to discuss the possibility of an internal review of the guaranteed party's TRs and QLSs. The PM team will then coordinate next steps with the respective Relationship Manager from the EGAT/DC PD team. The Mission will be contacted as necessary, and additional documentation may be requested from the guaranteed party. The PM team, with guidance from the PD team and the Mission, may request a site visit to inspect the credit files of the guaranteed party.

In the event irregularities are found during the EGAT/DC PM team desk or on-site review, an audit should be conducted by an experienced, independent auditor. The EGAT/DC Risk Management (RM) team will coordinate the planning and review of this auditor's performance. The RM team will also conduct this audit with appropriate Mission guidance. Results of this audit will be disseminated between the PM team and the RM team as well as the Relationship Manager to decide on next steps with this DCA guarantee.

The guaranteed party will be required to repay any amounts deemed to have been paid based on disallowed transactions (e.g., unqualified borrowers). If the guaranteed party is judged to have committed fraud, provided erroneous information, or is perceived as unable to carry out the activities and responsibilities of the guarantee, the USAID Office of General Counsel may advise to terminate the agreement following consultations with the Mission and relevant EGAT/DC staff.

viii. BUDGET

- One (1) designated responsible Officer: 2% of time, **$1,038 per year** for each year during which loans may be placed under coverage. This is based on an annual salary of $51,903.
- One (1) FSN in the Financial Management Office: 2% of time, **$626 per year** for each year during which loans may be placed under coverage. This is based on an annual salary of $31,284.
- Year 1 of the Guarantee: AMIR Support: 7% of one person's time, **$2,894 per year**, for the first year during which loans may be placed under coverage, based on an annual salary of $41,340.
- Years 2-8 of the Guarantee: USAID TBD Project Support: 7% of one person's time, **$3,534 per year** on average for years 2 through 8 of the guarantee period during which loans may be placed under coverage. This calculation is based on an annual salary of $41,340 for Year 1, with an assumed annual increase of 5% per year.

Total Annual Cost for Mission: $8,092 (estimated average)

USAID/W EGAT/DC travel to COUNTRY: $3,450 per trip, 1 trip for every two years is $1,725 per year. Estimated staff time costs for EGAT/DC to monitor this DCA guarantee are:

- EGAT/DC PD and PM team: 7 days per year, $3,500 annually for each year during which loans may be placed under coverage. This is based on an average salary of EGAT/DC personnel of $93,600 and a benefits package of $37,500.
- EGAT/DC PM monitoring contractors: $2,000 annually based on ongoing contract.

Total Annual Cost for EGAT/DC: $7,225

Clearance Page – Monitoring Plan

Mike Harvey, Deputy Director ____ 05/04/05
Jim Barnhart, EO ____ 5/2/05
Dave Barth, RLA ____ 5/4/5
Brooke Isham, OPM ____
Andy Plitt, FMO ____ 5/9/05

TAB 15: BEST PRACTICES
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Chemonics International Inc., 1133 20th St. NW, Washington, DC 20036
Telephone 202.955.3300, Fax 202.955.3400, www.chemonics.com

Presentation: Best Practices

DCA Best Practices – Global and Chemonics

Chemonics DCA Workshop
August 25, 2005

Chemonics International

DCA Best Practices

DCA + TA = Results

- Ideally, DCA should be paired with targeted technical assistance to:
  - Potential borrowers - identify projects, develop business plans, prepare loan applications, increase management skills.
  - Lenders - develop credit analysis and cash flow lending skills, undertake new product development.
- TA can be provided through an existing or planned USAID contract, other donor project, or through local subcontractors, or NGOs.

DCA Best Practices

Pros and Cons of LPG vs. LG/PG

- Loan Portfolio Guarantees are easier to develop and negotiate but take more effort to manage.
- Loan Guarantees and Portable Guarantees can be more difficult to develop and negotiate but take less ongoing effort to manage.
- Bond guarantees require significant structuring upfront and, depending on the borrowers, can require varying levels of oversight.

Appropriate Structures

- Once you have decided on a guarantee structure, revisit your original assumptions and objectives to ensure that it will serve your development goals.

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DCA Best Practices

Qualifying Borrowers

- A bit of art and finesse must be used in identifying qualifying borrowers under a Loan Portfolio Guarantee.
- Typically it is better to leave the terminology for qualifying borrowers in LPG legal agreements with lenders broad rather than prescriptive to encourage utilization of the guarantee facility while meeting development objectives.
- Example: “any sized SME in competitive sectors to include tourism, IT, or agribusiness” or “clean technology projects for any size business up to X”.

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DCA Best Practices

Strategic Partner Lenders

- Select lender partners that have a strategic and compatible interest in moving into the market you are trying to assist in accessing credit.
- Lender senior management must buy-in or resources and attention to lending under the facility may be insufficient.
- The biggest, and best known lenders do not always make the best partners for a DCA guarantee. It's advisable to identify which of a pool of strong lenders might be hungriest to beat out its competitors in a niche business area.

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DCA Best Practices

Negotiating with Lenders

- USAID will negotiate fees and other terms with lenders (Note: Chemonics can support Missions on this).
- Lenders want to know about the bottom line – present a few illustrative projects and their financials when approaching them regarding DCA.
- Lenders will accept in some cases less than the maximum 50% guarantee coverage allowable under DCA, and even the slight reduction to 40% reduces the subsidy cost a Mission must pay.
- Lenders will also pay a reasonable fee for guarantee coverage if they see tangible benefits and profit potential.

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DCA Best Practices

Timing of DCA Interventions

- Obtaining the credit subsidy cost from USAID/Washington early enough in the fiscal year facilitates budget planning activities.
- Important factors internal to the lender include: fiscal cycle, launch of a new product, key training events for credit staff, management changes.
- Involve the Regional Legal Advisor (RLA) early in the process.
- Translations of legal documents and lender negotiations both take time – be prepared.

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DCA Best Practices

Implementation Reality

- Lender utilization of LPGs will vary, and they experience different problems.
- Lender reporting requirements need to be reinforced by the relationship manager to ensure their timely delivery to USAID.
- Underutilization often occurs when there is no targeted TA but there are many tips and tricks for stimulating lending.
- Claims can happen – the subsidy cost is set aside to pay lenders' claims for honest loan defaults with reasonable recovery efforts. Immediate follow up is required to determine the causes and how widespread the problem is, and action steps to reduce further claims.

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DCA Best Practices

Lender Relationship Management is Key

- **Uganda SPEED** – partially due to ongoing relationships with the 7 participating banks, this guarantee program proved to be one of the most utilized and most successful in USAID's portfolio.

- **Mali Financial Services** – a previously established and under-utilized DCA guarantee with a commercial bank is about to resume activity due to ongoing discussions with the bank clarifying its interpretation of "qualifying borrowers" and the it's roles and responsibilities.

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TAB 16: PROMOTION & MARKETING
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Presentation: DCA Promotion

DCA Promotion

2005

Chemonics DCA Seminar
August 25, 2005

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Promotion vs. Marketing

Both are very important but distinct functions:

- DCA Promotion –
  - Communicating the advantages and rationale for using DCA to increase impact and create sustainability
  - Presenting global successes of USAID's DCA guarantee mechanism

vs.

- DCA Marketing –
  - Communicating Chemonics' successful models and innovative work helping USAID integrate DCA into projects in a wide variety of sectors
  - Presenting projects, IQCs, or other means by which Chemonics can assist with DCA work

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Target Markets

- USAID Missions and Regional Offices – directly, through projects, through events
- Potential Lenders – individually or through associations or apex institutions
- Potential Borrowers – smaller financial institutions, specific large scale projects
- Other potential partners - including equity investors, in-kind contributors, and other stakeholders
- Internal Chemonics – PMUs, COPs, and field staff

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Promoting DCA to USAID

Who?

- Your CTO
- SO Team Leaders
- Program Officers
- Mission manager of existing DCA facilities
- Mission Director
- USAID/W

When?

- During or en route back from a G-trip or TDY (careful about billing)
- Your COP is in town
- Project launch or annual work planning
- You've identified a specific DCA opportunity
- Conferences / Events

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Promoting DCA with USAID
Anatomy of an Approach

- Prepare first.
  - Check the DCA Market Analysis
  - Talk to DCA PMU and Regions
  - Make a list of talking points tailored to their SOs/interests
  - Collect any materials and statistics you might want to reference
- Get yourself an introduction from your CTO, your SVP, ODC (we will help you), another donor or stakeholder, etc. or introduce yourself by email.
- Offer Missions something of substance – new ideas! In most cases, Missions really do want to talk to us about important development initiatives.
- Meeting Format. Standard meeting, brainstorming, presentation, training (DCA PMU), etc. whatever is most natural.
- Follow up. Always send a brief thank you. If more detailed follow up is needed please advise the DCA PMU and we'll get right on it.

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Promoting DCA with USAID
Key Points

- The Basics. DCA encourages private financial institutions to provide longer term loans; reduce inappropriate collateral requirements; offer market-based interest rates; and invest in local development efforts.
- Guiding Principles. Projects must be financially viable. Borrowers and lenders must be non-sovereign. USAID must be the guarantor of last resort.
- Impact. DCA contributes directly to achieving SOs + financial sector strengthening through additionality of engaging the private sector.
- Sustainability. Private local capital investing in local development initiatives providing an exit strategy for TA projects and USAID Missions.
- Budget Leverage – $20-25 of private sector lending per $1 spend by USAID.

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Promoting DCA with USAID
Key Points

- Flexibility: DCA's flexibility allows structuring to enhance credit in a broad variety of situations and environments using one the four guarantee tools: LG, PG, LPG, BG

- GDA. DCA contributes towards GDA goals by engaging private sector lenders in true risk sharing and capitalizes on the strengths of both parties.

- Chemonics in-house capacity – Chemonics has a PMU dedicated to helping projects and Missions integrate DCA. Full-time employees and close associates have the requisite skill sets to cover all DCA-related activities.

- Chemonics full service model – We can assist Missions in establishing and implementing a DCA facility beginning with design & development, through all aspects of implementation, development and financial monitoring, and evaluation.

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Top 10 Questions Missions Will Ask

1. We have plenty of money in our Mission budget – why should we use DCA instead of just giving out grants?

2. How can DCA be used as a project or country exit strategy?

3. The country I work in has a high country risk rating – can our Mission use DCA?

4. Is it required that Missions compete potential DCA guarantee coverage among local lenders?

5. How much will a DCA guarantee facility cost the Mission?

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Top 10 Questions Missions Will Ask

6. Can the Mission allocate money from a (Chemonics or other) project to pay for the subsidy cost required for a DCA guarantee?

7. What happens to the subsidy cost money the Mission sends to the US Treasury? Can we get it back if no claims are paid out against our DCA guarantees?

8. How quickly can a DCA guarantee facility be established, and how complicated is the process?

9. Who is responsible for monitoring and reporting on a Mission's DCA activities?

10. Who will help us prepare the required documentation for the DCA Action Package?

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Questions You Should Ask Missions

1. Is using DCA part of your Mission's strategy as a tool to engage the local private sector in development initiatives?

2. In addition to your SO focused on XYZ, does the Mission also have a financial sector strengthening and/or capital markets deepening objective?

3. What development beneficiaries (aka potential borrowers such as municipalities, SMEs, agribusinesses, utility concessionaires, community agroforestry enterprises, etc.) are currently unable to access credit that could benefit from lending under a DCA guarantee?

4. Do any of the Mission's technical assistance projects in sector XYZ include a mandate to increase project clients' access to finance where DCA would be a natural fit?

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Questions You Should Ask Missions

5. How does the Mission feel about the DCA guarantees they have established to date, if any?

6. Have the partner lenders utilized the guarantee facility / placed the expected number of loans under coverage?

7. Did the Misison develop existing DCA activities themselves? Were some components outsourced?

8. Who is currently handling the monitoring, reporting, and lender relationship management for the DCA facilities?

9. Why has the Mission not used DCA to date?

10. Would your Mission be interested in learning more about DCA?

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Promoting DCA with Lenders Anatomy of an Approach

- Prepare first. Research which financial institutions might be appropriate partners (solvent, reasonably strong, interested in lending to target sector).
- Meet with Bank President/CEO/CFO and head of the credit team to describe USAID's partial guarantee.
- Verify assumptions (strength of operations, sufficient funds, ownership, ratings).
- Identify financial institution's level of interest. If the bank is interested…
  - Provide a list of information needed to complete risk assessment
  - Ask for a follow-up meeting to discuss how they will use the guarantee
  - Later you may provide them with a summary term sheet (ask DCA PMU)

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Promoting DCA with Lenders
Key Points

- Profitability. There is a large profitable market that remains underserved. The bank could cease the opportunity to enter this market utilizing DCA to assist in the learning curve.
- Capacity building. USAID is truly interested in helping lenders engage in lending to this sector and can provide training and assistance either directly or through other donors.
- Equal risk sharing. USAID will only guarantee up to 50% or borrower defaults on principal.
- Administrative simplicity. Guarantees are easy to administer because there is a real time data entry system.
- Fees are negotiable. Fees are negotiated between the lender and USAID. Origination Fee (0.5-2%); Utilization Fee (.25-2%)

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Top 10 Questions Lenders Will Ask

1. How does the guarantee work?
2. What are the profitable businesses in this sector?
3. What is the cost for utilizing this mechanism?
4. What types of loans are eligible for coverage?
5. Will USAID be making the final decision on each loan?
6. What is the process for establishing a DCA guarantee?
7. Will USAID provide training or advisory assistance to help us lend under the guarantee?

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Top 10 Questions Lenders will Ask

8. How and how fast can we get reimbursed on a claim and do we have to wait until the legal collateral recovery process has ended before submitting it to USAID?
9. What kind of reporting will we need to do under the guarantee? How much time will it take?
10. Can a lender use the USAID guarantee to cover up to 50% of a loan and cover remaining exposure with another donor or public sector institution's guarantee?

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Questions You Should Ask Lenders

1. Do you have a recent Annual Report?
2. What is your ownership / shareholding structure? (names, percentage of ownership)
3. How many years have you been in operation?
4. How many branches do you have and where are they located?
5. What is your market share and loan portfolio breakdown by sector?

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Questions You Should Ask Lenders

6. What are your current total asset, loan, and deposit amounts and what is the percentage of your non-performing loans (NPLs) to gross loans?
7. How is your Credit Department divided? (i.e. corporate credit, retail credit, etc.)
8. What are your standard loan terms (interest rate, term, collateral reqs.) for target sector X?
9. What is your current volume of loans and future strategic interest in the sector X?
10. Do you have an institutional credit rating? (from Moody's, Standard & Poor's)

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2004/2005 DCA Promotion & Marketing

Eastern/Southern Africa: USAID/Kenya and Zambia, REDSO, regional DCA workshop.

Results: 4 Chemonics staff + 1 CTO trained, workshop participant solicited advice on how to structure and contract help on a SME DCA LPG.

Honduras: Met with bank, NBFIs and Mission on a G-2 for NRM and rural competitiveness.

Results: Mission learned about Chemonics DCA expertise, corporate initiative, and full-service approach in advance of proposal submissions. Value-added and reality checked portions for proposals.

Russia: Met with USAID specialist in charge of DCA activities and EG Director.

Results: Collected valuable information about Mission presence being extended and plan for use of DCA for exit strategy

Asia: Met with Mission Directors in Vietnam & Mongolia and EG & other officers in Cambodia & Bangladesh.

Results: Competitive edge in advance of upcoming bids. 2-person, 3 week feasibility assessment on using DCA to facilitate term lending to SMEs in Mongolia

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2005 DCA Marketing Strategy

- Comprehensive market analysis includes:
  - Past DCA use in Mission by sector
  - Mission SOs and strategic plan
  - Interest expressed in future use through ODC or Chemonics projects
  - Chemonics presence in country
  - Other information available on country risk, Mission budget for subsidy cost, biases, word on the street, etc.
- Upcoming region-specific marketing strategies detailing who, what, when, how long and how much etc. We need your help!

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Resources

USAID Promotion	Lender Promotion	Both
	Information Resources	
•Sample introduction e-mails •Lists of attendees from previous USAID DCA workshops •Meeting notes – marketing trips and ODC meetings	•Lender web sites •Lender annual reports	•DCA PMU •Market Analysis & Strategy •Info on USAID DCA deals 1999-2004 •G-trip questions
	Handouts	
•IQC one-pagers •10-Step Guide to DCA Project Development	•List of info needed to complete risk assessment •Summary term sheet	•DCA Facsheet •DCA Activity Descriptions •Latest Annual Report from ODC

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Top 10 Questions from Missions and Responses

Top 10 DCA Questions from Missions and Responses

1. **We have plenty of money in our Mission budget – why should we use DCA instead of just giving out grants?**

USAID will remain essentially a grant agency. However, some development goals can be achieved more effectively using loans or guarantees, and DCA's demonstration effect creates a long term funding source using market forces. In such cases, DCA gives managers the flexibility to substitute credit assistance, or a combination of credit and grant assistance, in lieu of 100% grant assistance. The overriding goals of DCA are to mobilize private capital, demonstrate the economic viability of such investments to the local banking sector and other sources of private capital, and to maximize Agency resources - credit assistance delivers "results" leverage and budget leverage.

2. **How can DCA be used as a project or country exit strategy?**

DCA is an appropriate exit strategy in countries where USAID assistance is being phased out or where certain programs are winding down since it encourages private lenders to fund developmentally important activities previously funded by USAID or other donors. It is possible for USAID to implement and monitor DCA guarantee facilities after the close out of a Mission, either through local partners, a USAID regional presence, or USAID/W.

3. **The country I work in has a high country risk rating – can our Mission use DCA?**

Yes in most cases. Many factors contribute to the calculation for the subsidy cost a Mission will pay for a DCA guarantee facility. These include country risk, lender risk, borrower risk, and transaction risk, with country risk being 40% of the weighted score determining the subsidy cost amount. So in a higher risk country, one should seek stronger partner lenders, stronger borrowers, and consider offering less than the maximum of 50% guarantee coverage. Many USAID Missions in countries with "9" out of 10 risk ratings successfully established DCA facilities during FY 04. You can contact your region's relationship manager at the Office of Development Credit for more information.

4. **Is it required that Missions compete potential DCA guarantee coverage among local lenders?**

It is not required that Missions compete out guarantee coverage. However, venues such as local bankers' associations often provide a good way to get the word out about partnering with USAID through a DCA guarantee. The most important factor is that the lender is sound, solvent, and strategically interested in lending to the sectors and types of businesses USAID is supporting.

5. How much will a DCA guarantee facility cost the Mission?

Per the response to #3 above, many factors contribute to the calculation for subsidy cost. However, it is a safe assumption that it will run between 3-9% with 9% of the guarantee facility amount, with the higher end being applied to the riskier countries and/or deals.

6. Can the Mission allocate money from a (Chemonics or other) project to pay for the subsidy cost required for a DCA guarantee?

No, funding for the subsidy cost must come from the Mission's Operating Year Budget.

7. What happens to the money the Mission sends to the US Treasury? Can we get it back if no claims are paid out against our DCA guarantees?

The subsidy cost is similar to an insurance premium which is paid against the actuarially calculated likelihood of an event occurring, whether or not the event occurs or not. If claims are not made and there are no pay outs against loan defaults, the premium (subsidy cost) is not returned to the Mission, but instead will be used as provisioning for other global DCA activities.

8. How quickly can a DCA guarantee facility be established, and how complicated is the process?

A DCA guarantee can be established in less than 90 days, however this will vary according to the nature and complexity of the activity.

9. Who is responsible for monitoring and reporting on a Mission's DCA activities?

Technically the Mission is responsible for the monitoring and reporting on its DCA activities, but this is a function often undertaken by a Mission's implementing partners on ongoing projects.

10. Who will help us prepare the required documentation for the DCA Action Package?

USAID's Office of Development Credit provides support and advice to Missions and Bureaus about DCA activities. However, the DCA concept paper and DCA action package must be prepared by the Mission or one of its implementing partners.

Sample Introduction E – mail – Cambodia & Russia

-----Original Message-----
From: Ronald Ivey
Sent: Sun 11/21/2004 7:10 PM
To: 'Addleton, Jonathan'
Cc: Carrie Averch
Subject: Cambodia DCA Visit

Dear Jonathan,

I hope you are doing well in Cambodia. We are doing as well as we can to move your baby, the Mongolia EPRC, forward. We're helping the new Prime Minister roll out his 100-day program, which will include an amended tax regime. We're looking forward to a broad range of policy and competitiveness support activities and the energy reform program has gone well enough that the Mission is beginning to think that privatization of some facilities are possible. USAID seems quite happy with the program to date.

The reason I am writing is that Caroline Averch, Manager for Chemonics' Development Credit Authority (DCA) activities will be traveling in the Asia region over the next few weeks and is planning to be in Phnom Penh Wednesday, December 8 and Thursday, December 9. She would very much like to meet with you while she is in town to talk about DCA and its potential applications to USAID/Cambodia's programs.

DCA guarantees cover up to 50 percent of a private lender's risk on a loan or portfolio of loans made with their own capital, thereby encouraging private commercial banks to finance viable enterprises in unfamiliar or non-traditional sectors. The DCA mechanism has wide applications and can alleviate access to credit constraints and catalyze private sector lending in all sectors where USAID offers assistance. We believe that DCA is an extremely relevant and valuable tool and could help advance your programs while extending the Mission's budget. Historically, the average budget leverage achieved utilizing a DCA guarantee is 25:1 – translating into $25 of private local capital lent for every $1 USAID Missions must set aside as a reserve.

Caroline is a development finance specialist and has worked with USAID's Office of Development Credit and Missions around the globe since 2000 to engage local private sector lenders in investing in development. She is leading Chemonics' activities utilizing DCA guarantees to enhance development impact and sustainability and to leverage USAID's budget in areas including health, water, agribusiness, environment, local governance, competitiveness, and micro and small enterprise development. Please find her CV attached.

If you are available, Caroline would like to call on you at the Mission to discuss Chemonics' innovative work in integrating DCA into USAID's technical assistance projects, and to explore opportunities for its applications for your SOs. This could be a simple discussion, or it could take the form of a short focused training session for staff who are interested, followed by brainstorming ideas about how DCA could be used to support specific SOs or programs.

Please advise if you might be available either December 8 or 9, and she will be in contact with you directly. We look forward to this opportunity to learn more about USAID/Cambodia's programs.

All the best,

Ronald Ivey
Senior Vice President
Asia Region
Chemonics International, Inc.
Tel: 202-955-7492
rivey@chemonics.com

-----Original Message-----
From: Irina Sedova
Sent: Monday, June 21, 2004 6:05 PM
To: 'lchoumikova@usaid.gov'
Subject: Meeting with Chemonics DCA Team Member

Dear Ms. Choumikova,

At the suggestion of Sandra Goshgarian, the EGAT/Office of Development Credit (ODC) Europe and Eurasia Relationship Manager, I would be very interested in talking with you to learn more about the innovative Development Credit Authority guarantee facilities USAID/Russia currently has in process and planned.

I am supporting Chemonics International's existing and future Development Credit Authority (DCA) activities in both Europe and Eurasia and across all regions where we are implementing USAID programs, helping project staff appropriately and innovatively integrate DCA as a financial leverage tool into USAID technical assistance projects to enhance development impact and sustainability. Chemonics International has substantial experience in designing, developing, implementing, and monitoring DCA projects for USAID, including the successful Uganda SPEED 7-bank loan portfolio guarantee program. We have taken a number of best practices that we've learned from the Uganda SPEED experience and that we are applying to our DCA work in Albania, Mali, Egypt, Peru, Mexico, and elsewhere.

We are always seeking to augment our knowledge base with information from other innovative DCA deals such as USAID/Russia's SDM Bank Loan Portfolio Guarantee, and are eager to learn how other Missions are using this flexible credit enhancement mechanism since we believe it has wide applicability across the E&E region, particularly related to SME growth. Chemonics is currently in an exploratory phase of a DCA guarantee for a small business support project in Albania and is considering using the mechanism in an upcoming competitiveness initiative in Kosovo. In addition, we're examining DCA as a potential financial leverage tool to provide loan capital to select microfinance institutions in Georgia. It would be valuable to learn of your experience with DCA in Russia as we conceptualize and structure DCA projects in these countries.

I will be stopping in Moscow for a number of meetings on Wednesday, June 23rd through Friday, June 25th and would like to inquire if you would be available the afternoon of either June 23rd or June 24 or the morning of June 25th to discuss USAID/Russia's portfolio of DCA projects?

I look forward to hearing from you, and to hopefully meeting with you in Moscow depending on your availability.

Sincerely,

Irina Sedova

==================================
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Chemonics International Inc.
Project Administrator - Development Credit Authority
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www.chemonics.com

USAID DCA Workshop Attendees

Development Credit Authority Workshop Attendee List
Ohrid, Macedonia May 2005

	First Name	Last Name	Organization	Position	E-mail
1	Arthur	Flanagan	USAID/Serbia & Montenegro	GDO Officer	aflanagan@usaid.gov
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36	Kofi	Owusu-Boakye	USAID/ODC	EGAT/DC - Credit Portfolio Officer	kboakye@usaid.gov
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Development Credit Authority Workshop Attendee List
Amman, Jordan February 2005

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Top 10 DCA Questions from Banks and Responses

Top 10 DCA Questions from Lenders and Responses

1. How does the guarantee work?

The Development Credit Authority guarantee mechanism allows USAID to partially guarantee loans, leases, bonds, letters of credit, or other debt instruments issued by private lenders to creditworthy borrowers. Lenders must use their own capital for loans but USAID will share up to 50% of net principal losses incurred by the lender after "reasonable" collection efforts have been pursued. If collateral toward the loan has been recovered, or the borrower repays any portion of their defaulted loan, the lender must share recoveries with USAID per their Legal Agreeement.

Talk about the specifics of the applicable guarantee structure (LPG, LG, PG, BG). Bring a visual of each of the potentially applicable structures.

2. What are the profitable businesses in this sector?

Answers to this question will vary depending on the sector but it is a good idea to present a few illustrative projects and their financial projections in order to satisfy the bottom line mentality of financial institutions.

3. What is the cost for utilizing this mechanism?

The guaranteed party pays a one time origination fee, which is negotiated with USAID and ranges between 0.5% and 2.0% of the guaranteed portion of the maximum loan amount. By paying the origination fee the guaranteed lender demonstrates its commitment to entering a new sector or extending loans to new types of borrowers. There is also a utilization fee, which is paid every six months on the outstanding guaranteed amount. The utilization fee ranges between .25% and 2.0% and is also negotiated with USAID.

4. What type of loans are eligible for coverage?

Under a loan portfolio gurantee, it is up to the USAID Mission and lender agree on what borrowers will be eligible for coverage. Only those who meet the Missions definition of "qualifying borrowers", which is recommended to be broad, will be eligible for guarantee coverage.

5. Will USAID be making the final decision on each loan?

After doing initial due diligence on the lender and its credit policies and procedures to establish they are sound, USAID devolves all decision making with respect to individual loans to the lender under the LPG. USAID does not get involved in evaluating the creditworthiness of individual loans because it wants the guaranteed lenders to learn from their lending and be able to better identify creditworthy borrowers in the future. The process of making new loans encourages lenders to conduct due diligence and build internal risk analysis abilities as well as loan monitoring skills. Under a loan guarantee, a portable guarantee, and the bond guarantee the borrower is established in advance.

6. What is the process for establishing a DCA guarantee?

The process for establishing a DCA guarantee can take from two to nine months and requires various inputs from the lender as well as the USAID mission in country, and USAID/Washington. Steps on the lender side include:

- Submit a letter of interest to the USAID Mission
- Provide financial information
- Further discuss the definition of qualifying borrowers and how the guarantee would be used
- Negotiate the details of the deal
- Sign the legal agreement

7. Will USAID provide training or advisory assistance to help us lend under the guarantee?

Yes, in order to ensure effective utilization of the guarantee, USAID usually tries to provide capacity building to both the lenders and the borrowers under a guarantee facility. Whenever possible, USAID projects either conducts direct training for the lender or identifies other organizations that can provide the needed support services. Lender training is need-specific but usually includes loan officer skills strengthening on more advanced cash-flow analysis, risk assessment, management, and loan monitoring techniques. USAID also strives to help borrowers identify viable projects, develop business plans, prepare loan applications, and increase management skills.

8. How and how fast can we get reimbursed on a claim and do we have to wait until the legal collateral recovery process has ended before submitting it to USAID?

A lender can submit a claim to USAID 90 days after the final letter of demand for the full outstanding amount owed to the lender is sent to the delinquent or defaulted borrower. On average, USAID takes from 30-60 days to pay a claim but it can take longer if the lender is not current with reports or fees. The bank does not have to wait until the judicial process for collateral recovery has ended. USAID will pay a claim once the bank either provisions for the defaulted loan or writes the loan off as non-performing on the bank's books. This ensures USAID that the bank has taken a loss for this loan. Thereafter, USAID will request annually that any recoveries the bank receives be shared equally with USAID.

9. What kind of reporting will we need to compete under the guarantee? How much time will it take?

Reporting under the DCA guarantee is very simple and does not require significant time commitments. Loans are placed under DCA coverage through a real time online credit monitoring system (CMS), which tracks basic loan information such as borrower names, loan amounts, loan dates, maturity dates, etc. Additionally, banks are required to submit semiannual reports called Qualifying Loan Schedules (QLS) for LPGs, which list all the loans under coverage and summarize funds exchanges between the lender and the borrower/s. The QLS reports must be submitted to the online credit monitoring system every April 30th and October 31st. Finally, once a year in June lenders are required to send their annual financial statements to the USAID office of Economic Growth Agriculture and Trade (EGAT) in Washington DC.

10. Can a lender use the USAID guarantee to cover up to 50% of a loan and cover remaining exposure with another donor or public sector institution's guarantee?

No, the lender must have real risk of loss under the loan. If there is a 50% guarantee from USAID and 50% by another public sector entity or donor, then USAID is not really sharing risk with the lender. However, if the lender pays a private financial institution a fee to insure the remaining 50% of risk, this might be permissible. In such a scenario, USAID is effectively sharing risk with this private sector institution. This scenario may be seen with portable/loan guarantees from international banks to smaller local banks.

USAID Required Financial Institution Information

USAID DCA Loan Portfolio Guarantee
Required Information from Financial Institutions

1. CVs of senior management team (principal officers and directors)
2. Organization chart
3. List of registered owners by name and percentage of ownership (if publicly listed, note % held by public)
4. Audited financial statements (with footnotes and all qualifications statements) and annual reports for past three years, plus most recent interim financial report
5. Three to five year business plan, if available
6. Rating by a recognized rating agency, if available
7. CAMELS rating/analysis by the central bank, if available
8. Current data on size, performance, and volume of microenterprise, SME, corporate, and mortgage portfolios.
9. Description current or planned participation with any donor credit lines
10. A detailed description of asset quality classification policies.
11. In addition, please complete the following tables if this information is not available in the audited bank financial statements:

Classification*	Current	2004	2003	2002
Gross loans				
a. Performing				
b. Special Mention				
Total performing loans (a + b)				
c. Sub-standard				
d. Doubtful				
e. Loss				
Total non-performing loans (c + d + e)				
Accrued interest as % of total non-performing loans				

*If lender uses a different set of classification standards than those above, then please provide a breakout of performing and non-performing loans per the lender's classification standards.

Information reported to central bank	Present	2004	2003	2002
Risk-weighted assets				
Capital adequacy ratio (CAR)				
Liquidity ratio				