

# Development Credit Authority

*Partnering with the Private Sector to Achieve Development Goals*

## Using Development Credit to Facilitate Alliance Building

The utilization of development credit, especially in coordination with technical assistance, is an efficient way to engage and deepen the participation of the local private sector in achieving development goals. USAID country offices can employ development credit to facilitate alliances with private financial institutions, non-governmental organizations, and sub-sovereign regional and local governments that are willing to risk-share in true partnership. USAID through its Development Credit Authority (DCA) provides partial guarantees up to fifty percent of principal to private sector partners. Partial guarantees can help correct market imperfections by mitigating the perceived risks and costs of the transaction, resulting in increased access to financing for targeted groups. USAID provides partial guarantees to stimulate greater access to credit in the areas of eco-tourism, cleaner production technology, municipal water and sanitation infrastructure, agribusiness, and micro-, small- and medium-sized enterprise growth. USAID offers four flexible development credit structures: a loan guarantee, a loan portfolio guarantee, a portable guarantee, and a bond guarantee.



*Eco-friendly investment recognizes that natural resources are valuable assets to local economies.*

## Supporting Eco-friendly Investment

EcoLogic Enterprise Ventures operates a loan fund that finances eco-friendly businesses that are located in and around protected terrestrial, coastal, and marine habitats and that are unable to secure financing from local commercial sources. USAID provides a partial guarantee to facilitate the expansion of EcoLogic's lending in Mexico, Guatemala, Panama, Nicaragua, and Peru for eco-tourism and small and medium agribusiness, including coffee, cocoa, spices, fine woods and fisheries. Through DCA, USAID shares fifty percent of the risk of each qualifying loan made by EcoLogic. With the guarantee, EcoLogic will be able to expand more rapidly into new markets, thereby increasing the available financing for environmentally friendly businesses.



*Small and medium fishery and aquaculture enterprises can benefit from USAID partial credit guarantees.*

## Promoting Cleaner Production in Central America

USAID, in partnership with local cleaner production centers and five banks in Panama, Nicaragua, Honduras, El Salvador and Costa Rica, is promoting cleaner production technology. The cleaner production centers, with support from the United Nations Environment Programme and the Canadian International Development Agency, work with interested businesses to assess management and technology improvements that will have a positive effect on profitability as well as on the environment. USAID shares the cost of these assessments with participating businesses. When cleaner production technology is identified as an appropriate and desired investment, the cleaner production centers assist businesses in preparing the business plan and supporting documents that are necessary to secure local commercial financing. To encourage access to credit, USAID provides a partial guarantee to five local banks in the targeted countries to mitigate fifty percent of the risk incurred when lending to new clients that want to invest in clean technology.



### Supporting Closed-Value Chain Production in Peru

USAID/Peru supports the expansion of available private financing for small-scale agriculture production in Alternative Development zones, which are now predominately coca growing regions. The guarantee is a syndicated structure with funds from the end buyers and three small financial institutions to increase lending to crop producers that already have purchase-order contracts. USAID/Peru provides technical assistance to identify and broker these closed value chain transactions. This innovative guarantee structure will stimulate revenue generation and agribusiness growth in perceived high-risk zones.

### Public-Private Partnerships to Increase Financing for Sustainable Development

Development credit, in the form of a partial guarantee or credit enhancement, can create more sustainable financial investment opportunities by disproving perceived market imperfections and lowering start-up and transaction costs. The need to engage the private sector in financing environmental improvements is critical to achieving sustainable development and economic growth. National government and multilateral funding is insufficient to meet the expanding financing needs of businesses, activities and projects that have a positive environmental impact. Without private sector participation, social and economic development will be sluggish and difficult to sustain.

### Increasing Access to Clean Water and Sanitation

At the World Summit on Sustainable Development in August 2002, the US Government announced the launch of the Water for the Poor Initiative. The goals of this initiative are to improve sustainable management of fresh water resources and accelerate and expand international efforts to achieve the UN Millennium Declaration Goal of cutting in half the proportion of people who are unable to reach or to afford safe drinking water by 2015. To achieve these goals, the U.S. Government aims to mobilize \$600 million in local financing directed toward the improved access to water and sanitation services in developing countries. USAID will stimulate the desired increase in private financing by providing partial guarantees through DCA.

### Financing For Water And Sanitation Infrastructure

With the use of a DCA partial guarantee, USAID supported the bond issuance of municipalities in India to finance water and sanitation infrastructure investment. With the guarantee, the municipalities, which created a pooled special purpose vehicle to issue the bond and manage its proceeds, were able to access the local capital market and to lengthen the term of the municipal bond. Similar capital market approaches are currently being considered in Mexico, the Philippines, and Indonesia. Another option to help bridge the financing gap for water and sanitation services is to develop revolving funds that invest in financially viable water infrastructure. A water revolving fund, such as those managed at the state government level in the United States, facilitates the correct pricing of water service provision, encourages financially viable design, operation and maintenance of locally managed water systems, and strengthens accountability of service providers to the local community.



*The use of a DCA partial guarantee in India helped municipalities fund largescale infrastructure for water delivery systems.*

### Fueling Economic Growth in Rural Areas in Guatemala

Banco del Café, a private commercial bank in Guatemala, recently renewed a partnership with USAID to increase available financing for small and medium sized enterprises working in rural areas that currently have limited access to commercial credit. Potential borrowers include: tourism businesses, microfinance institutions, agribusinesses, and manufacturing firms. USAID is providing Banco del Café a partial guarantee on loans made within these targeted sectors. With the guarantee, Banco de Café is willing to expand its lending to new businesses in new geographical areas of the country that it otherwise would not be willing to enter. Additionally, it is anticipated that access to credit facilitated through this guarantee will support the Central American Free Trade Agreement by providing export-oriented businesses with capital financing to grow and compete in the changing regional marketplace.