



Development Credit Authority

Putting local wealth to work **in Asia***

Asia Clean Energy Forum
Sustainable Fiscal Instruments Session

June 8, 2017

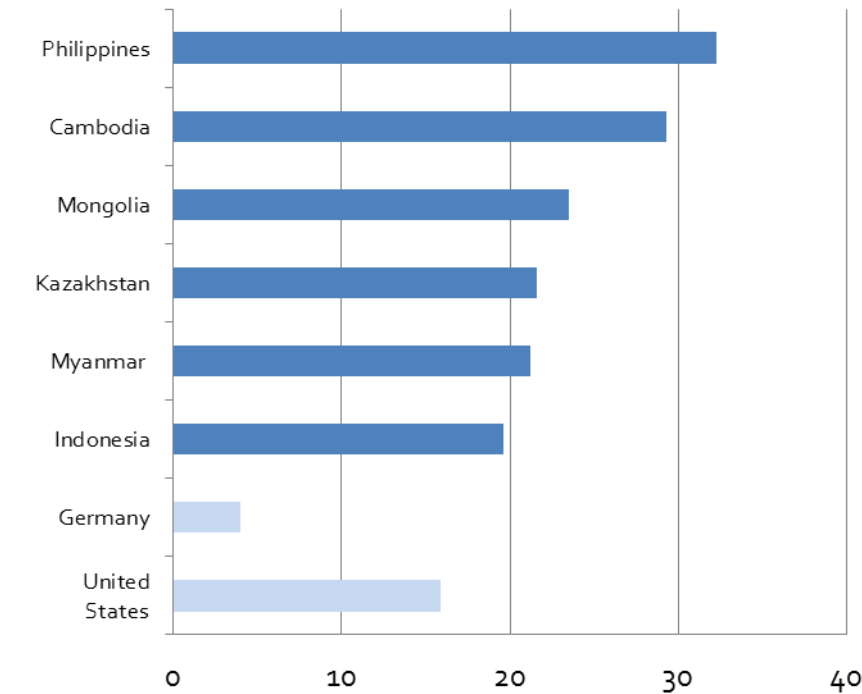
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In some countries there remains substantial untapped liquidity

Bank liquid reserves

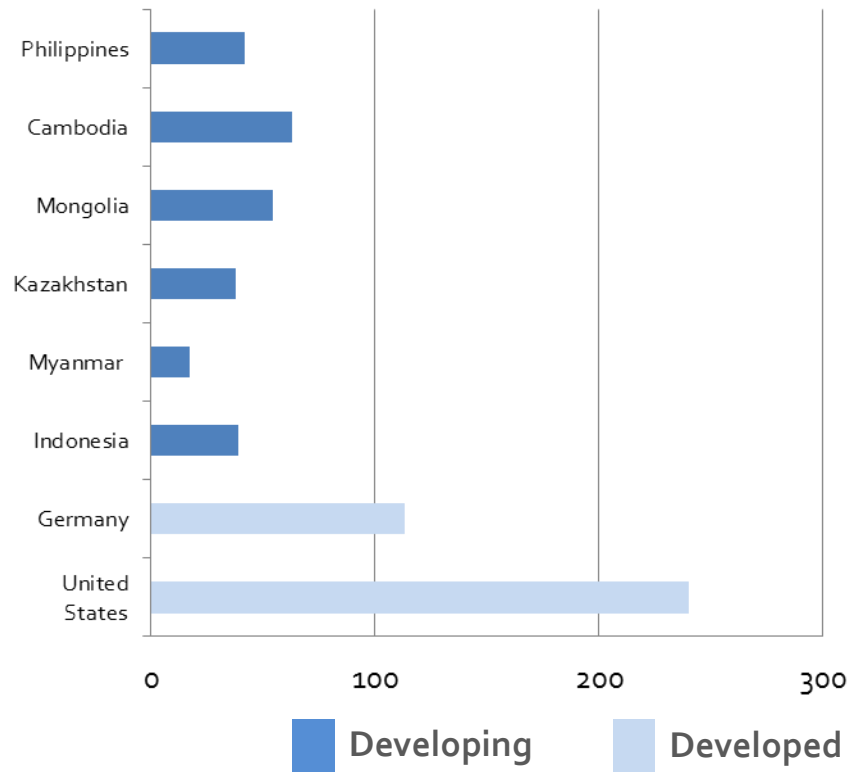
Percent of bank liquid reserves to bank assets



Source: World Development Indicators, 2015

Domestic Credit Provided to Private Sector

Percent of GDP



Despite substantial bank liquidity, market imperfections and borrower constraints limit access to finance

Market Imperfections

- Risk-averse lenders
- Low-risk alternatives (e.g. treasury bills)
- Maturity mismatch preventing long term lending
- Low liquidity (in some markets)
- High cost of funds driving high lending rates
- Central bank policies restricting lending
- Lack of collateral registries
- Lack of experience lending to certain sectors



Borrower Constraints

- Poor / non-existent credit history
- Lack of acceptable collateral
- Limited access to financial institutions
- Minimal book keeping
- Informal corporate governance



A lack of access to finance for enterprises, sectors, and municipalities central to economic growth

**USAID's Development
Credit Authority seeks to
mitigate these market
imperfections.**

**DCA is USAID's legal
authority to issue partial
credit guarantees to
private financial
institutions to share the
risk on loans to
underserved borrowers or
sectors.**



Development Credit Authority (DCA) Overview

What it is

- DCA is USAID's partial loan guarantee tool used to bridge access to finance gaps in support of USAID's programming around the world
- Unlike grants or contracts, DCA is a unique tool deployed through an iterative process with support from DCA Investment Officers and a USAID mission or operating unit

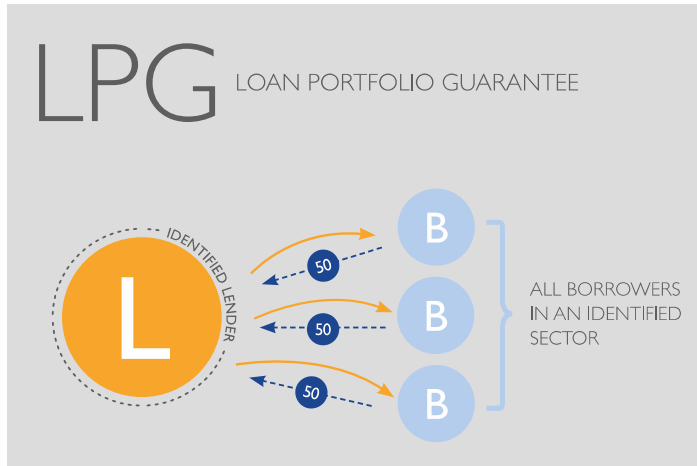
How it works

- A private lender and borrower (or group of borrowers) are identified through various channels
- A formal agreement is signed between USAID and a private lender
- The lender provides a loan(s) to a targeted borrower/ beneficiary(ies)
- USAID pays 50% of realized loss following receipt of claim from lender

Why it exists

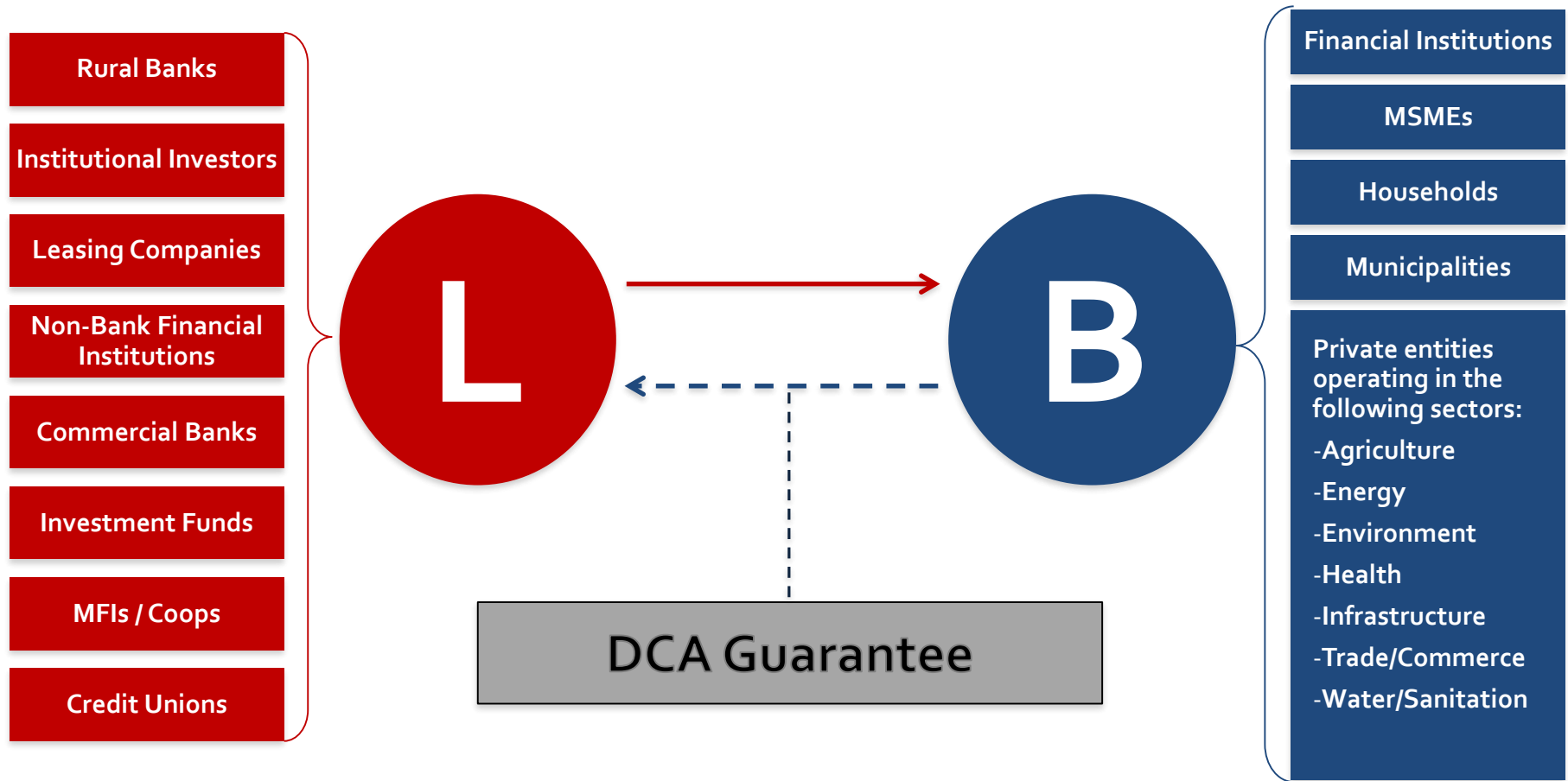
- To assist in mobilizing commercial debt solutions to underserved borrowers facing challenging financial market conditions

DCA offers four main products...



...that are flexible and can be tailored to different market contexts

DCA can work with a variety of lenders supporting borrowers across a wide range of sectors



Key Features of a DCA Guarantee

- Guarantee backed by the full faith and credit of the **U.S. Treasury**
- Typically a **50% *pari passu*** guarantee on loan principal (not fees or interest)
- Flexibility to guarantee foreign and/or **local currency**
- Guarantee on **non-sovereign debt** capital only
- Guarantees should exhibit **clear additionality** and be used when it is probable that the transaction would not go forward without it
- Guarantee is **not revolving**
- **Pre-approval not required** for individual loans placed under loan portfolio guarantees
- Origination and utilization **fees** to ensure partner commitment
- Reporting online in a **simple** internet-based system

Since 1999, DCA has signed **79** guarantees in Asia, leveraging **\$818 million** in private capital across **16** countries



\$817,785,628

Total Portfolio



\$335,785,222

Utilized Portfolio



79

Transactions



67

Financial Partners



16

Countries



20,345

Borrowers



2,267 : 11%

Women Borrowers



4,369 : 21%

First Time Borrowers



24 : 1

Leverage Ratio



\$38,466,848

Total Subsidy Cost



\$14,758

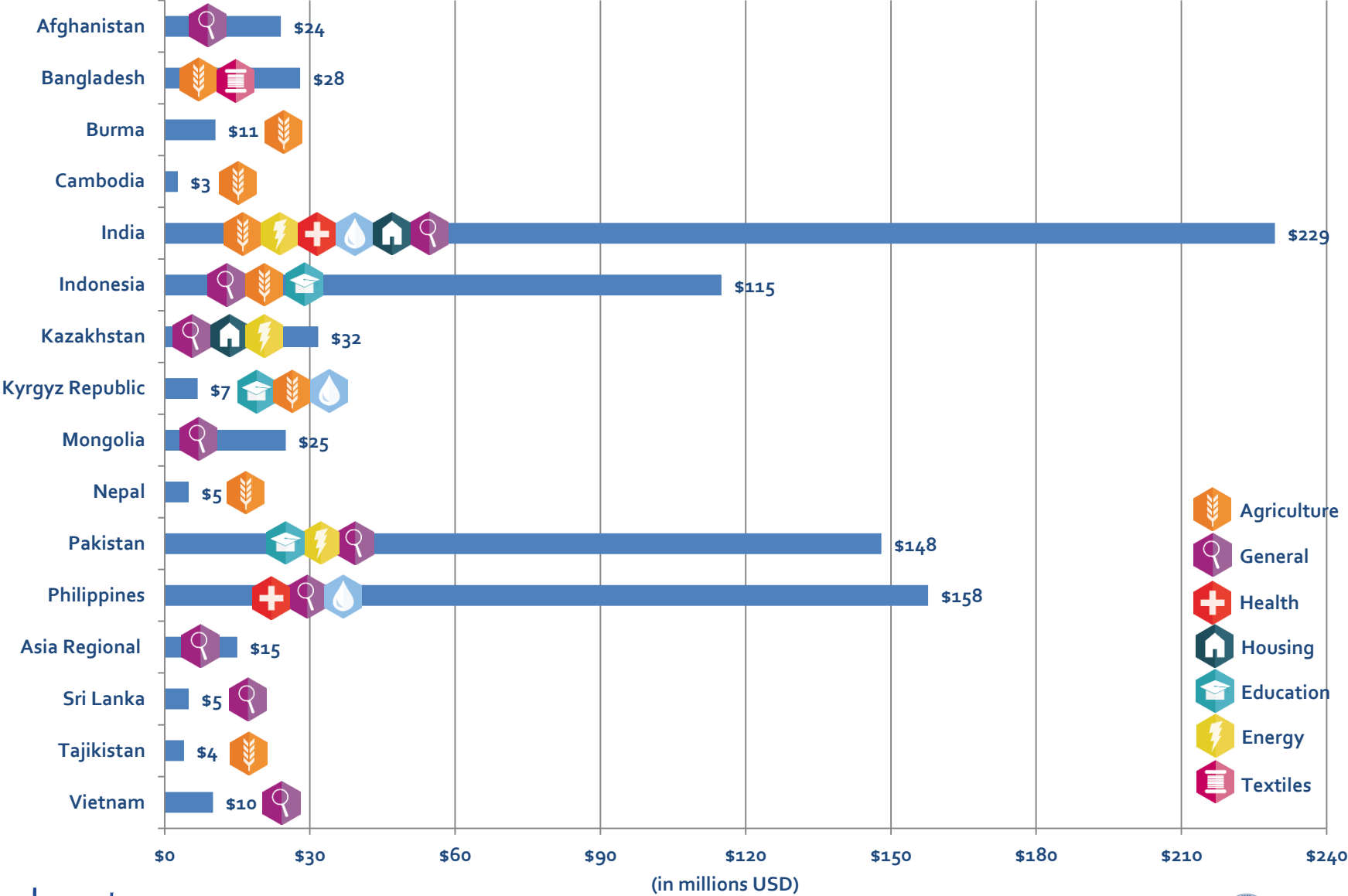
Average Loan Size



1.06%

Default Rate

Asia Portfolio Snapshot: 1999 - 2016



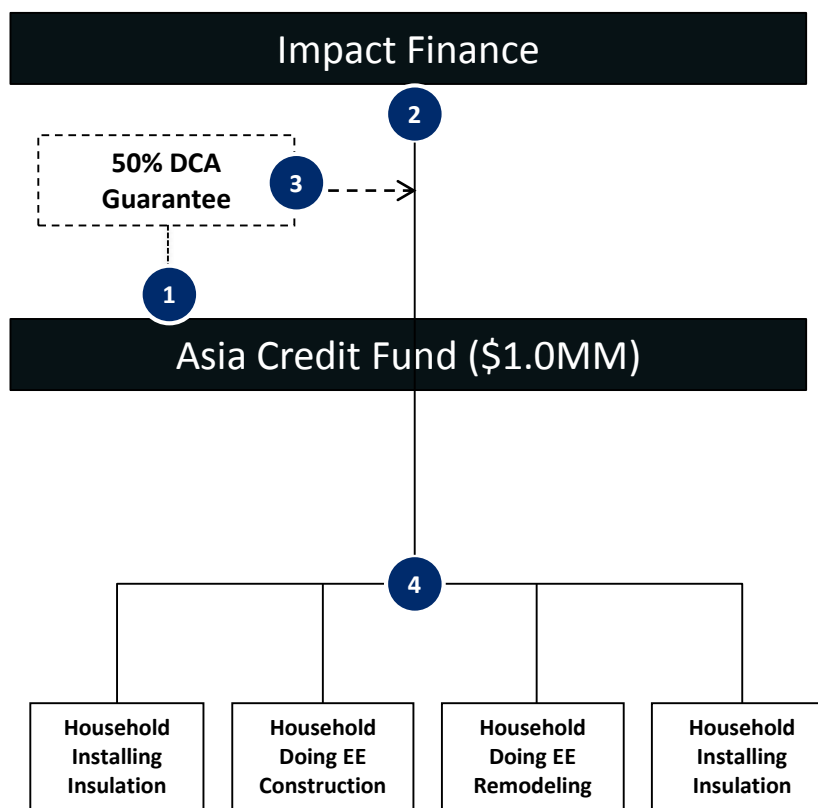
Kazakhstan: Asia Credit Fund Portable Guarantee/Impact Finance Loan Guarantee

Project description: Using USAID's \$1.0 million, 50% portable guarantee, Asia Credit Fund (ACF) was able to shop for wholesale financing to facilitate their on-lending in the residential energy efficiency sector. ACF found a lender—Impact Finance—with whom USAID then signed a loan guarantee to provide 50% pari-passu coverage of principal on a \$1.0 million loan to ACF. ACF received an initial loan from Impact Finance, and then proved to be such a reliable borrower that Impact Finance was comfortable lending to ACF without USAID's guarantee for the remainder of ACF's credit needs.

General Features

- 1 DCA issues a portable guarantee with which ACF can “shop” for financing from lenders.
- 2 ACF secures a loan from a lender that meets USAID requirements.
- 2 USAID provides a 50% pari passu guarantee on the loan to ACF, and USAID signs a guarantee agreement with the lender to stipulate the terms. In the event that ACF defaults on the loan, USAID will pay up to 50% of lost principal.
- 4 ACF on-lends to energy efficiency borrowers, mostly households making energy efficiency upgrades, such as insulation.

Structure



Terms

Total Facility	\$1,000,000
Lenders	Impact Finance
Borrower	Asia Credit Fund
DCA Coverage	50%
Maximum Loan Size	\$1,000,000
Guarantee Length	4 years
Currency	USD and Tenge
Targeted Borrowers	Residential EE housing construction, improvements or remodeling expenses, disbursing residential EE loans

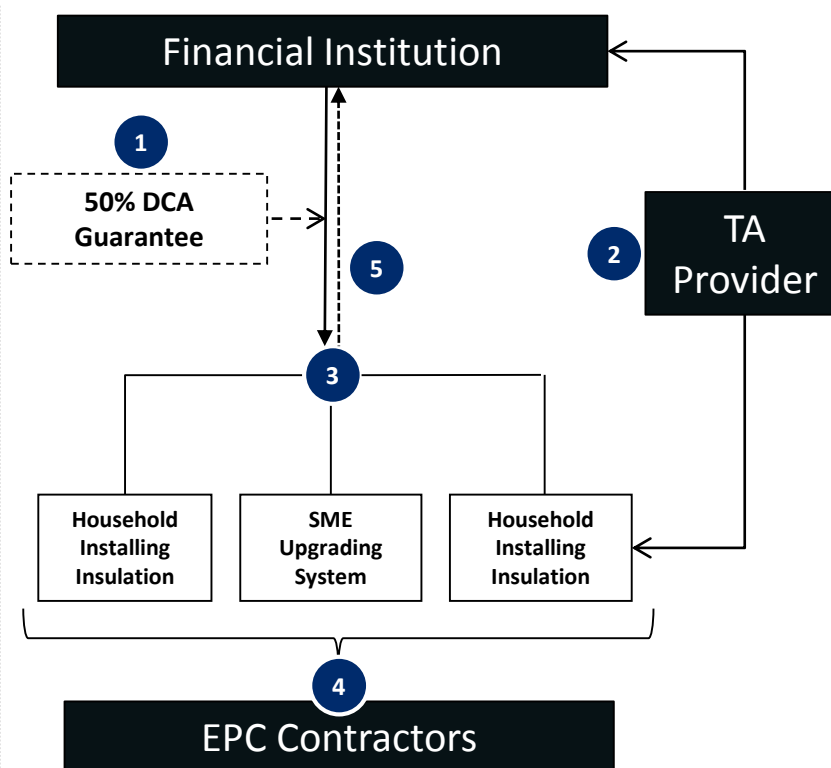
Georgia & Ukraine: Loan Portfolio Guarantee for Energy Efficiency

Project description: The energy sector has strategic importance in the Ukraine and Georgia due to both countries' reliance on Russian fossil fuel. This negatively impacts the environment and burdens municipal budgets, particularly since energy tariffs do not operate on full cost recovery. The most significant losses result from inefficient, older buildings. It is estimated that building renovations can improve system efficiency by 25%, and if financed, these savings can be realized in 3-5 years. DCA will provide a loan portfolio guarantee (LPG) to one or more banks launching multi-family and institutional energy efficiency lending, focused on thermostat automation, insulation, and installation of new windows. The DCA will mitigate market entry risk and reduce the reserve requirement of the banks.

General Features

- 1 DCA provides a loan portfolio guarantee to a financial institution(s) for lending to qualifying energy efficiency projects, including building insulation, heating automation systems, and high-performance windows.
- 2 USAID and IFC TA assists potential borrowers to conduct energy audits and business plans. The TA also connects the borrowers to the partner banks with the DCA guarantee.
- 3 Banks provide loans to qualifying borrowers including condominium owners' associations, private companies, or possibly municipalities.
- 4 Borrowers enter EPC contract with private firms to undertake the building renovation work.
- 5 Borrowers realize cost savings from efficiency investments and repays loan.

Structure



Terms

Total Facility	\$10,000,000
Lenders	Bank Lviv and Credito
Borrowers	Condominium associations, businesses, and municipalities
DCA Coverage	50%
Guarantee Ceiling	\$5,000,000
Maximum Loan Size	\$600,000
Guarantee Length	8 years
Sub-loan Length	5 years
Currency	Ukrainian Hryvnia or Georgian Lari
Qualifying Projects	Energy efficient building renovations

Hypothetical Structure: Energy Efficiency Re-guarantee

Project description: A re-guarantee of an energy savings insurance (ESI) product for a portfolio of energy efficiency projects. The DCA guarantee would re-guarantee a portion (up to 50%) of the risk borne by the ESI provider, thus freeing up capital and alleviating the risk of the provider. Through such a relationship, the ESI would guarantee that the savings will be sufficient to repay the bank, a product that requires a certain level of technical expertise, and USAID could bear a portion of the resulting credit risk.

General Features

1

A private lender extends loans to entities for the purpose of energy efficiency projects, either on a project finance or balance sheet basis.

2

A private insurer provides energy savings insurance, thus guaranteeing savings to be used for loan repayment.

3

USAID acts as re-guarantor, freeing up capital for the insurance provider to expand this product.

4

USAID or other donor provides ongoing support, especially to ESCOs.

Structure

Private Bank /MFI

1

Energy Savings Insurance

2

USAID Re-guarantee

ESCO

Commercial/ Residential Building

Commercial I Facility

Industrial Facility

3

Technical Assistance

Indicative Terms

Total Facility	TBD
DCA Coverage	50%
Guarantee Ceiling	TBD
Lender(s)	TBD
ESI Provider	TBD
USAID Subsidy	TBD
Guarantee Length	Up to 8 years
Avg. Loan Length	3-5 years
Avg Sub-loan Size	TBD
Qualifying Borrowers	ESCOs or building owners
Currency	TBD
Origination Fee	TBD
Utilization Fee	TBD

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Thank you!



Appendix

Successful guarantee partnerships have three commonalities

- A win-win for both USAID and its financial institution partner
 - High development impact, including improved access to finance for underserved populations
 - Greater market share, competitive position and/or increased profits
- The existence of supporting technical assistance targeted at both the borrowers and lenders
- A lender with a clear and consistent lending strategy to improve utilization and market penetration



DCA guarantees have had substantial impact in Asia

Impact on...

...Lenders

- Bai Tushum bank in the Kyrgyz Republic has made **bigger loans to SMEs and developed new microloan products**, such as purchase order finance, both of which will continue after expiration of the guarantee.
- Five microfinance institutions in Burma are **expanding their reach to new borrowers** thanks to a multi-bank guarantee focused on agriculture.

...Borrowers

- In India, some of the poorest municipalities pooled their risk to attract bond investors, **enabling water projects in underserved areas and a borrowing history to attract future investors**.
- Targeted loan guarantees have enabled **cold storage for agricultural inputs in Morocco**, and **drip irrigation access in India**. For the latter, **private sector funds covered the cost** of the guarantee.

...Markets

- **DCA is opening the on-grid and off-grid renewable energy markets** in India and Pakistan through a \$88 million guarantee in Pakistan and a \$75 million guarantee in India.
- Municipalities and water utilities in the Philippines can **accessing financing for water projects** thanks to a combined donor effort which includes a DCA re-guarantee of a local municipal guarantor.

Partnerships help DCA leverage resources and increase impact

Risk Sharing

- Public and private guarantee organizations can risk share with USAID through co-guarantees, first-loss structures or other risk sharing mechanisms.
 - Past and current partners include: **GuarantCo, Alliance for Bangladesh Worker Safety, and Sida**

Gift-funding

- Donors, local governments, and private firms can “gift” DCA funds to support mutually beneficial new guarantees. DCA absorbs the risk in these structures.
 - Previous partners include: **DfID (UK), DFAT (Australia), GE, IFAD, and several local governments**

Technical Assistance

- Donors and others can enhance the impact of existing DCA guarantees **by providing training, capacity building and other assistance to DCA’s existing lending partners and their targeted borrowers.**

Knowledge-sharing/evaluations

- DCA seeks knowledge-sharing opportunities with other guarantors and other interested actors, **including joint market assessments and co-publications.**
- Donors, local governments and academics are also invited to partner to **enhance monitoring and evaluation of guarantees.**

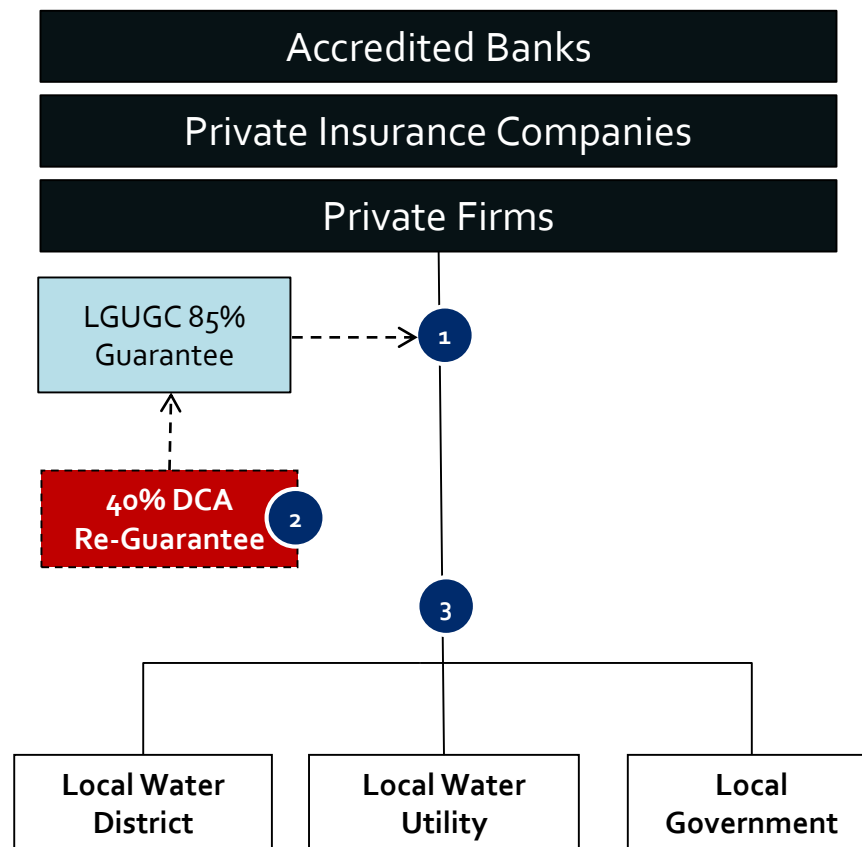
Philippines: Municipal Water Re-Guarantee

Approximately 17% of reported disease cases in the Philippines are caused by lack of access to clean water. LGUGC encourages investors to support local water infrastructure projects by guaranteeing loans to local governments and water districts. DCA re-guarantees a portfolio of LGUGC guarantees for local water supply and sanitation projects. This enables LGUGC to take on greater risk and expand its portfolio. The guarantee directly contributes to the viability of the Philippine Water Revolving Fund, a USAID initiative designed to leverage private capital with public resources and improve creditworthiness of water utilities.

General Features

- 1 LGUGC provides guarantees to private financial institutions and firms to mobilize \$37.5 million in lending to the water sector. These guarantees typically cover 85% of principal.
- 2 DCA acts as a re-guarantor by providing a portfolio guarantee to LGUGC. This portfolio guarantee covers no more than 40% of the 85% guaranteed by LGUGC.
- 3 The private financial institutions and firms grant loans to local governments and water districts for infrastructure projects relating to water supply and sanitation.

Structure



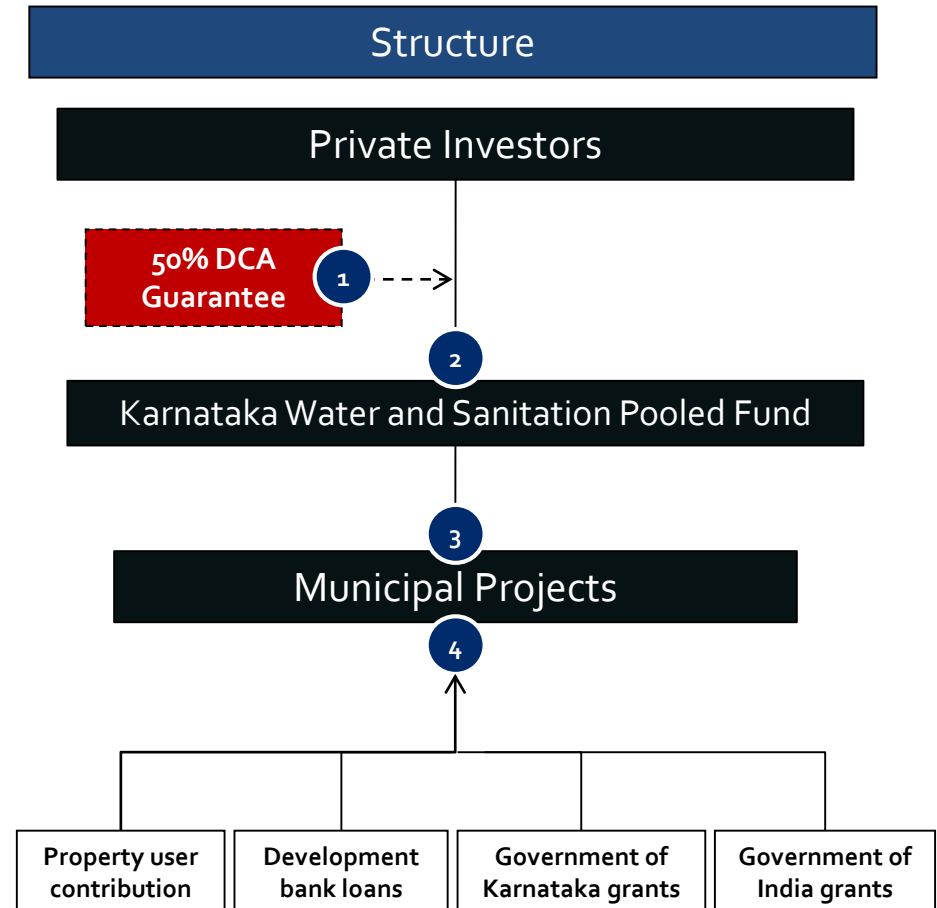
India: Municipal Water Bond Guarantee

In the rapidly growing southern Indian states of Karnataka and Tamil Nadu, most communities still lack a formal water system. Two DCA guarantees facilitated \$29.3 million bond issuances by the states of Karnataka and Tamil Nadu to finance infrastructure improvements. The issuance was a pooled municipal bond through a trust, the Water and Sanitation Pooled Fund. The trust is managed by the state infrastructure development finance corporation. Proceeds were used for water supply and sewage development projects in 15 municipalities.

General Features

- 1 DCA provides a bond guarantee for a \$21.7 million issuance by the **Karnataka Water and Sanitation Pooled Fund** to raise private capital for infrastructure projects
- 2 Bonds are offered to **private investors**, who would otherwise be averse to the risk of investing in long-term municipal bonds
- 3 Proceeds support **municipal water and sanitation projects** in 8 municipalities
- 4 The proceeds raised through the bond will account for approximately 15% of total project costs. The remaining balance will be met by the property user contribution, grants from state and national government, and loans from development banks.

Structure

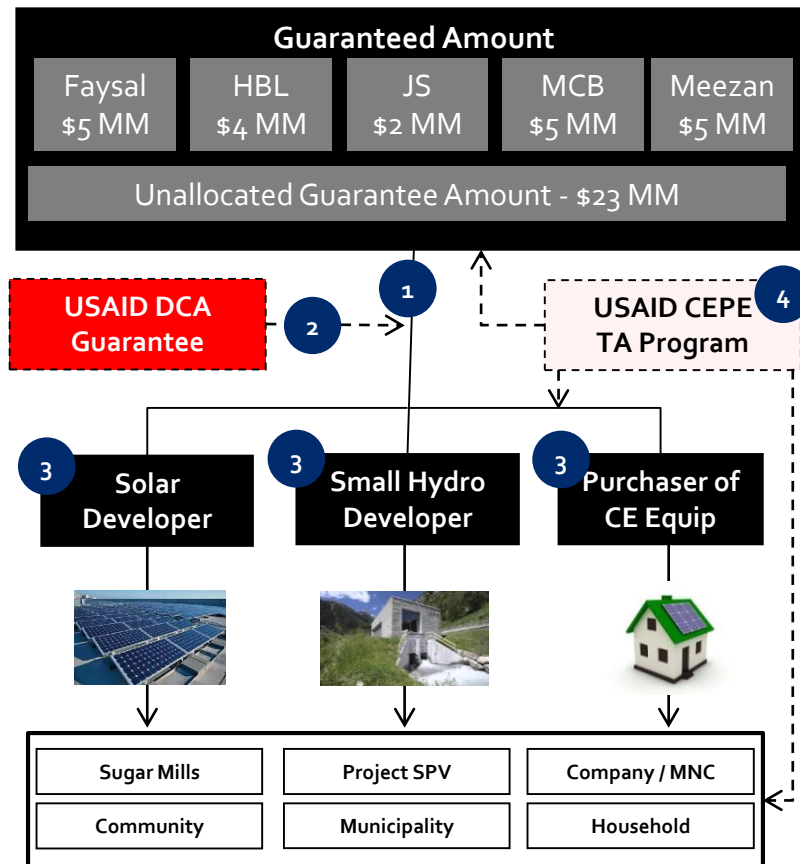


Pakistan: Clean Energy Loan Portfolio Guarantee

General Features

- 1 Commercial banks provide debt financing for clean energy developers or projects and businesses supporting the clean energy in Pakistan
- 2 USAID provides up to 50% guarantee on the loans. In the case of default, USAID will reimburse the bank for up to 50% of losses
- 3 Loan proceeds are used by developers, purchasers, and enablers of the CE sector (e.g. Developer installs small to medium sized CE projects, business/ households purchases CE equipment, ESCOs access debt financing to grow)
- 4 USAID's CEPE project provides technical assistance to the banks, the developers, and end users

Structure



India: Primary Health Care Company Loan Guarantee

General Features

- 1 RBL provides a loan of up to \$9 million to Healthspring
- 2 USAID provides a 60% partial credit guarantee to RBL on the first \$3 million disbursement and a 50% guarantee on the remaining amount. The guarantee provides the comfort needed for RBL to lend since Healthspring is a young, asset-light corporation
- 3 Healthspring uses proceeds to expand geographical presence and open 135 new health centers in the next five years
- 4 Quality primary healthcare is more accessible in India

Structure

