



USAID
FROM THE AMERICAN PEOPLE

CREDIT GUARANTEES

PROMOTING PRIVATE INVESTMENT IN DEVELOPMENT



YEAR IN REVIEW 2005

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Website: www.USAID.gov **Keyword:** Development Credit

U.S. Agency for International Development Credit Guarantees - Year in Review 2005

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IMPORTANCE OF ACCESS TO CREDIT

Banks in many developing countries are very conservative in their lending practices. When these banks make loans, it is typically to established customers and often requires collateral equal to 100 – 200 percent of the loan. Conditions like these favor large, successful businesses and established bank clients. However, for smaller operations, new customers and lesser-known markets, these conditions make it difficult to obtain critically-needed financing. As a result, profitable enterprises and creditworthy borrowers lack access to credit, which eliminates job opportunities, stifles expansion of local enterprises and hinders improvements in municipal services, such as clean water, sanitation and electricity.

USAID Partial Credit Guarantees

Since 1999, the United States has supported the use of partial credit guarantees in developing countries to increase the availability and access to credit for a wide variety of borrowers, including microenterprises, small and medium businesses, and municipalities. The U.S. Agency for International Development provides partial credit guarantees for private-sector investments to reduce the risk associated with lending to new or underserved sectors in which access to credit is limited or unavailable. USAID credit guarantees cover lenders' investments up to 50 percent of principal. These partial guarantees are backed by the full faith and credit of the U.S. Treasury, allowing USAID to share the risk with local and international private financial institutions. This risk-sharing methodology reduces lenders' exposure to loss, while effectively engaging lenders' capital for development-related activities. Each guarantee is a powerful catalyst for unlocking private-sector resources to spur economic growth by encouraging lending, increasing investment opportunities, and strengthening the skills and capacity of private financial institutions.

Each guarantee is intended to:

- **Promote private-sector investment** – Large reserves of untapped private capital are held by banks in developing countries. USAID offers partial credit guarantees to encourage financial institutions to lend that capital where financing is unavailable or inaccessible. The reduced risk of loss provided by a guarantee can motivate lenders to expand existing loan terms, create new loans or lend to new markets or areas.
- **Build lending capacities** – Since guaranteed lenders bear 50 percent or more of the risk on each loan, they have ample incentive to screen borrowers, carefully evaluate the project or business and monitor each loan. These actions build a bank's capacity to lend into new markets, making credit available to under-served, but creditworthy borrowers.
- **Encourage sustainability** – The combination of USAID training, technical assistance and partial guarantees has introduced private financial institutions to new and profitable lending opportunities. As lenders gain experience investing in traditionally underrepresented areas, they may become comfortable continuing to provide their services without further need for a guarantee. It may also encourage other lenders to enter the market and create competition for borrowers.
- **Maximizes U.S. Government funding** – By using credit from private sources to finance local development, credit guarantees leverage on average \$25 in loans for every \$1 expended by the U.S. Government.

www.USAID.gov keyword: development credit

GUARANTEE ACTIVITY IN 2005:

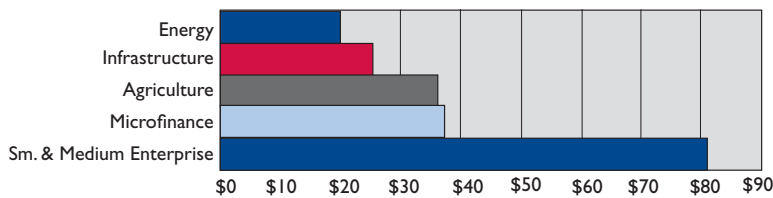
THE YEAR IN REVIEW

In 2005, USAID established 31 guarantees in 22 countries. Each guarantee represents a partnership between USAID and a private financial institution to make credit available to creditworthy borrowers and developmentally beneficial projects. As USAID's guarantee portfolio grows, it demonstrates the positive impact private-sector investments can have on local development.

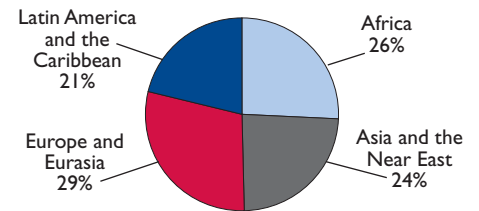
2005 SUMMARY OF GUARANTEES

Number of Guarantees	31
Total Credit Made Available	\$199 million
Amount Guaranteed	\$88 million
Cost to USAID	\$10 million
Number of Countries	22

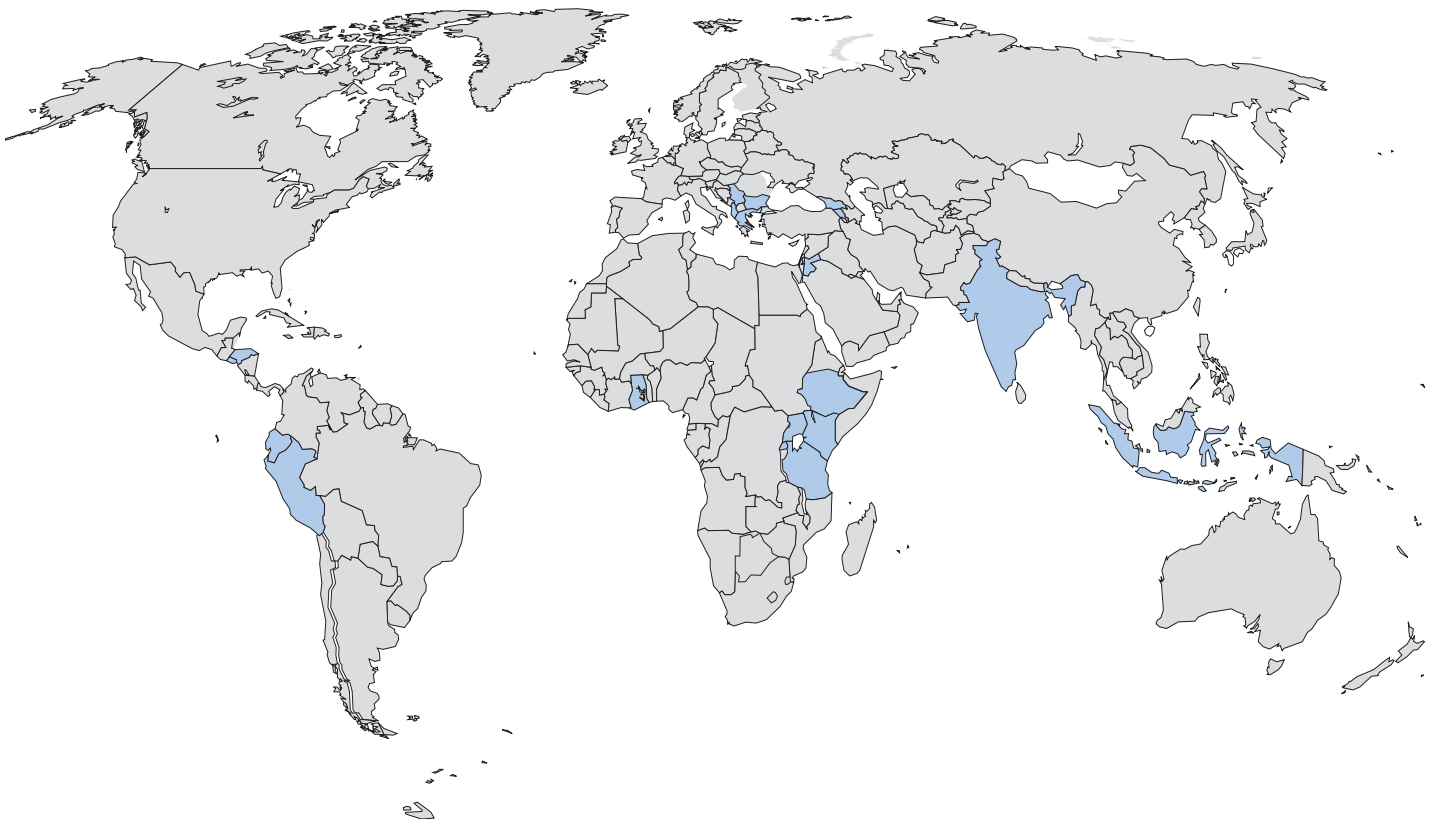
2005 CREDIT MADE AVAILABLE BY SECTOR
(in millions of U.S. dollars)



2005 CREDIT MADE AVAILABLE BY REGION
(from amount noted above)



COUNTRIES with NEW USAID CREDIT GUARANTEES - 2005



GUARANTEE ACTIVITY

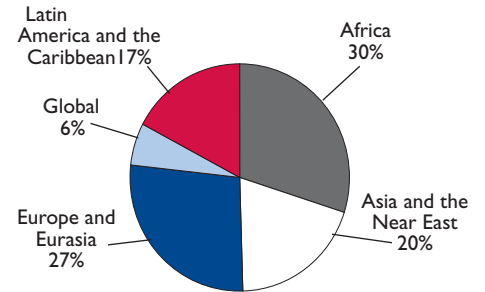
Inception to Date: 1999 – 2005

USAID partial guarantees are a simple but effective way to draw capital from the private sector into areas that are underserved by local financial markets. The use of these guarantees, which began seven years ago, has had a substantial impact. The security they provide has motivated lenders to make approximately 55,000 loans so far, benefitting thousands of borrowers and residually, a far larger number of people. A town of approximately 20,000 people in India, for example, now has a reliable source of clean water, 50,000 clients of a Peruvian microfinance institution can take out new loans and 500 members of a coffee cooperative in Rwanda have their own specialty coffee business. While there is no way to know exactly how many people benefit from the loans guaranteed by USAID, rough estimates are in the millions.

SUMMARY OF GUARANTEES

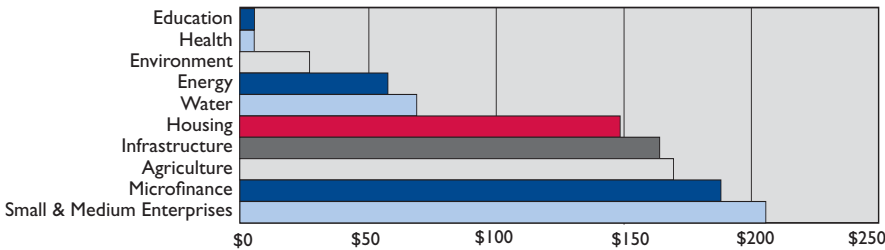
Number of Guarantees	143
Total Credit Made Available	\$1,040 million
Amount Guaranteed	\$419 million
Cost to USAID	\$38 million
Number of Countries	41

TOTAL CREDIT AVAILABLE BY REGION (from amount noted above)

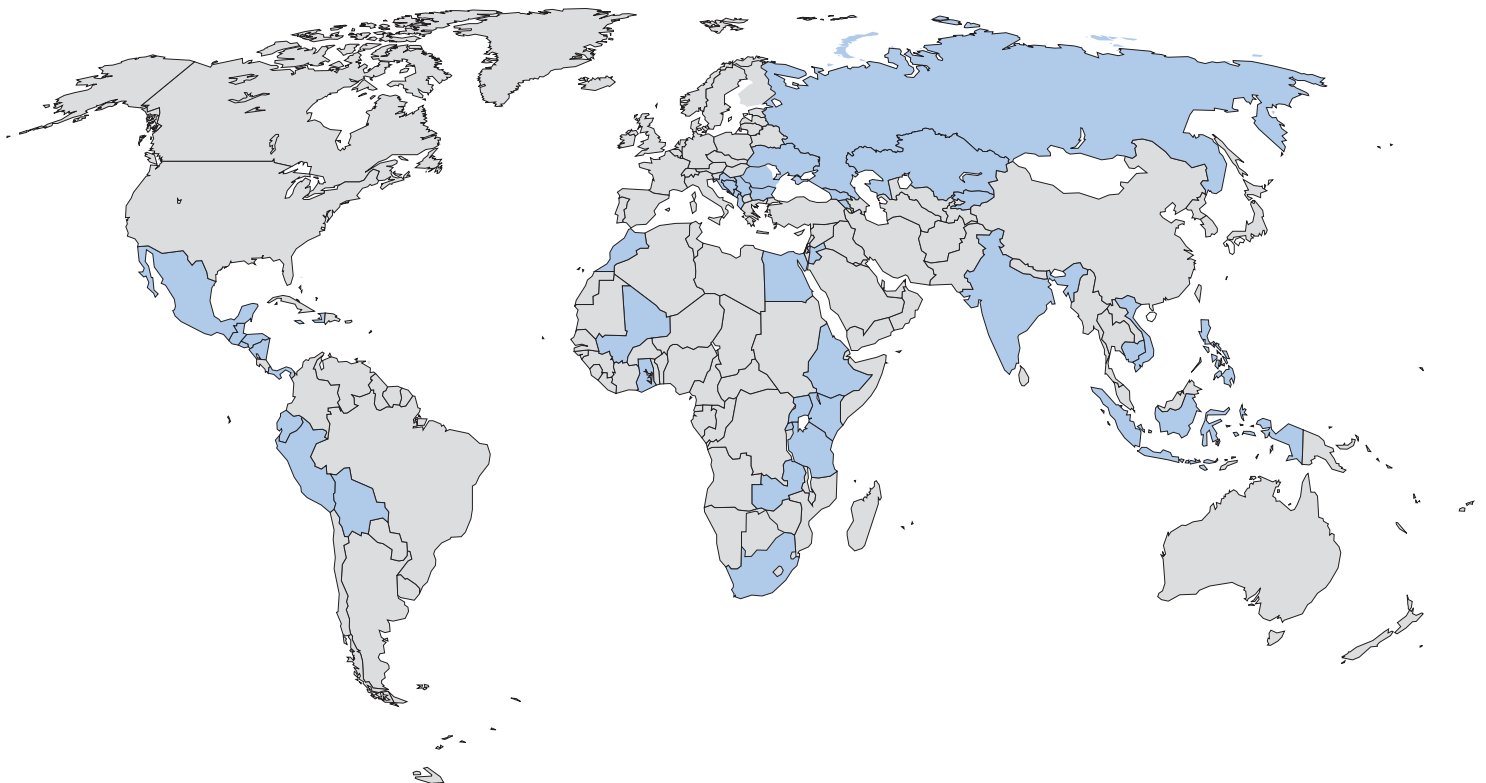


TOTAL CREDIT MADE AVAILABLE BY SECTOR

(in millions of U.S. dollars)



COUNTRIES with USAID CREDIT GUARANTEES, 1999 – 2005

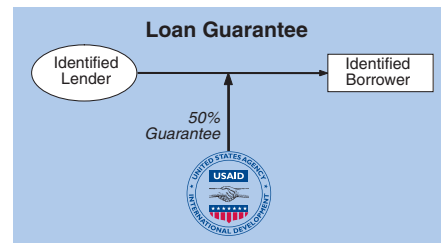


TYPES OF USAID CREDIT GUARANTEES

Four types of partial credit guarantees are available through USAID to encourage private lenders to finance or invest in local projects. Each of the four guarantees can be tailored to a particular project or financial partner.

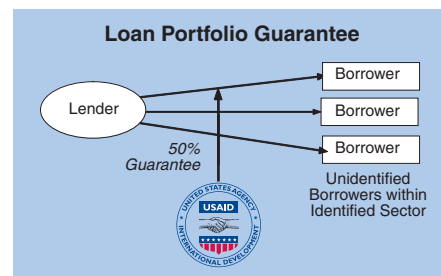
Loan Guarantee

The typical loan guarantee covers a single loan from a financial institution to a specific borrower for a particular project or activity. This guarantee is used when the borrower, lender, and use of the loan proceeds are known up front and when the loan would not be made without the guarantee.



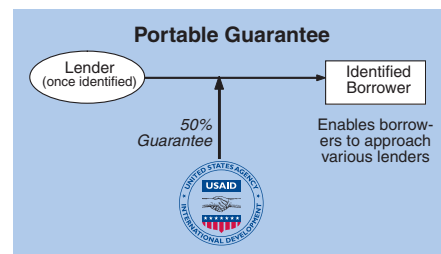
Loan Portfolio Guarantee

A loan portfolio guarantee is similar to a loan guarantee except that the guarantee covers loans to a number of borrowers rather than one. This guarantee is meant to encourage lenders to extend credit to areas that are underserved by financial institutions. Each borrower must meet a pre-agreed definition of “eligible borrower” for the lender’s loan to be covered. The definition of eligible borrower is determined at the time the guarantee is designed and broadly defines the type of business the loans will be made to or geographic region where lending should be targeted.



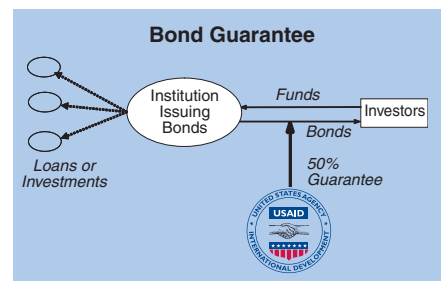
Portable Guarantee

A portable guarantee is used when a borrower cannot obtain a bank loan on his own. In this case, once USAID is confident of the borrower’s ability to make repayments, USAID gives the borrower a commitment letter indicating that USAID will guarantee the loan if a lender is found. The letter gives the borrower greater leverage when shopping around for affordable financing terms, hence the term “portable.” Once a lender is found, USAID’s portable guarantee becomes a loan guarantee for the lender, covering up to 50 percent of principal if the borrower defaults.



Bond Guarantee

Bond guarantees are used to support the sale of bonds that generate capital for a borrower when similar amounts are not available from the local capital market. The guarantee ensures that investors will receive the stated repayments from their investment when they purchase a bond. Funds generated from the sale of a bond can be used to finance a range of activities, from investing in municipal infrastructure to capitalizing microfinance institutions. A bond guarantee can help improve or extend the terms under which that capital is received compared to those normally available from a bank. USAID bond guarantees can also be used to encourage investments in countries with new bond markets as well as advanced capital markets.



The features below are common to each type of guarantee:

Management	Guarantees are developed and monitored by USAID’s overseas offices for projects that are financially viable and include prudent risk management and mitigation.
Sectors	All sectors, from agriculture to health, and from microfinance to municipal finance.
Lenders	Private financial institutions (foreign or domestic) and investors.
Borrowers	Private financial institutions and enterprises; municipalities.
Fees	Risk-based, with development needs taken into account.
Terms	Loan lengths up to 20 years; commercial terms in local and/or U.S. currency; risk shared by USAID on up to 50 percent of lender/investor’s net loss on principal.

Africa – Year in Review



2005 SUMMARY

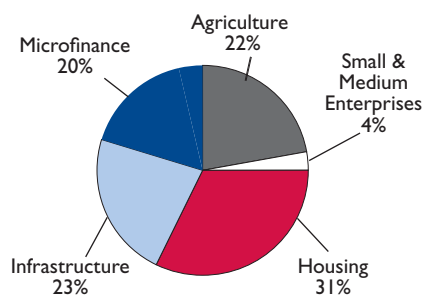
Number of Guarantees	12
Total Credit Made Available	\$51 million
Amount Guaranteed	\$23 million

Location (No. of Guar.)	Sector	Credit Made Available
East Africa	Agriculture	\$2 million
Ethiopia	Agriculture	\$10 million
Ghana	SME	\$7 million
Kenya	Agriculture	\$3 million
Uganda (3)	Agriculture	\$11 million
Uganda (5)	Microfinance	\$18 million

1999 – 2005 SUMMARY

Number of Guarantees	37
Total Credit Made Available	\$309 million
Amount Guaranteed	\$110 million
Number of Countries	9

GUARANTEES BY PROJECT AREA



Regional Summary

The continent of Africa received substantial attention from the world's major donors this past year. During various events that focused on challenges to growth and development in Africa, commitments were made to support local businesses, trade, education and health, among other sectors, to help reduce poverty and disease across the continent. The United States, which leads the donor community in aid to Africa, committed to double present assistance from US\$4.3 billion to US\$8.6 billion. USAID is working to support this assistance with credit guarantees. In several countries, USAID partial guarantees compliment U.S. Government efforts by, for example, encouraging private banks to expand lending for smaller businesses involved in agriculture, manufacturing and tourism, and capital for microfinance institutions to boost the credit available to microenterprises. By creating or strengthening the linkages between private lenders and borrowers, USAID partial guarantees support the development of sustainable sources of credit.

Guarantee Descriptions

East Africa

Rural cooperatives in East Africa have struggled to produce high-value coffee for export to the U.S. and Europe. When funds are needed, cooperatives have been unable to secure local financing from conventional sources such as commercial banks. EcoLogic Finance, a U.S. alternative loan fund offering affordable credit to community-based enterprises in developing countries, is targeting the rural credit markets in Rwanda, Tanzania, Uganda, Kenya, and Ethiopia to provide cooperatives like these with private financing. USAID will guarantee up to US\$2 million in new loans from EcoLogic to eligible community-based cooperatives with signed purchase contracts from specialty coffee buyers.

Ghana

Strengthening management, marketing and productivity in private enterprises is vital to economic development in Ghana. The need for capital to fund these operations is crucial. By providing a loan portfolio guarantee to EcoBank Ghana Limited, USAID is helping make up to US\$7 million in credit flow to micro, small and medium-sized enterprises (MSMEs). This guarantee expands on the success of a previous loan portfolio guarantee with Ecobank covering up to US\$3 million in loans to MSMEs. The new guarantee covers up to 50 percent of principal on loans to those engaged in non-traditional export markets including manufacturing, agro-processing, and textiles. Under its coverage, EcoBank has already made over \$1.6 million in agribusiness loans.

Kenya

Extending credit to women-owned and operated businesses is an important part of rural development efforts in Kenya. USAID's loan portfolio guarantee to K-Rep Bank Limited supports lending to creditworthy Kenyan enterprises, particularly those in agriculture, merchandise trade and tourism. The guarantee covers 50 percent of the principal on up to US\$3.2 million in loans from K-Rep to small and medium-sized businesses. It is anticipated that the loans will have a residual impact, boosting employment and income in rural areas around the country.

Uganda

In Uganda, micro, small and medium enterprises (MSMEs) are not being adequately served by the formal banking system. Commercial bank lending to MSMEs and microfinance institutions remains low. USAID has provided a partial guarantee to five Ugandan banks on up to a total of US\$17.7 million. The guarantees act as incentive to expand lending to MSMEs throughout the country. As Uganda's export potential continues to lag behind growing regional demand, three additional guarantees will cover up to US\$11.6 million in loans from three private commercial banks. The guarantees promote increased financing of agricultural exports, strengthening farming enterprises, cooperatives and traders. The short-term financing provided by the banks will be secured by commodities stored in regulated warehouses. By avoiding the usually-required purchase contracts, traders and producers can access cash and quickly return to market to purchase more products. Already, a total of over 120 loans has been made. Encouraging the banks to continue providing affordable credit should expand economic opportunities in the rural areas of Uganda.

Highlighted Guarantee

Empowering Smaller Businesses in Ethiopia

Select small and medium-sized businesses in Ethiopia are benefiting from USAID's support for the development and expansion of the country's exports. USAID recently provided a credit guarantee to Dashen Bank to partially cover US\$10 million (86 million Ethiopian birr) in loans to such enterprises engaged in agro-processing; information communications technology and tourism, as well as manufacturing of textiles and garments and commercial farming of labor-intensive products such as cotton and flowers. Under the guarantee, loans to women-owned businesses were particularly encouraged.

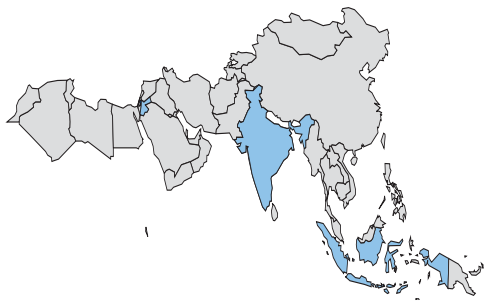
To reduce Dashen Bank's potential for loss, the USAID guarantee would enable the bank to share the risk dollar for dollar on each new loan made, up to a maximum reimbursement of US\$5 million or 50 percent of the \$10 million in total credit available (up to US\$750,000 per borrower). The guarantee, USAID's third in Ethiopia, is intended to help increase Ethiopia's participation in the African Growth and Opportunity Act (AGOA) - U.S. legislation designed to help African businesses gain duty-free access to U.S. markets.



Photo: USAID/Ethiopia

Dashen Bank and USAID/Ethiopia signing ceremony. From the left: Mr. Lulseged Teferi, President of Dashen Bank, Mr. Brian Moran, Acting Deputy Chief of Mission, U.S. Embassy/Ethiopia and, at right, Mr. William Hammink, Mission Director, USAID/Ethiopia.

Asia and the Near East – Year in Review



2005 SUMMARY OF GUARANTEES

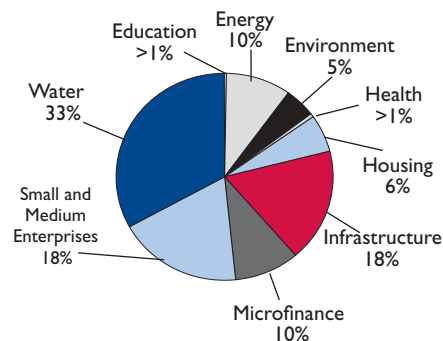
Number of Guarantees	4
Total Credit Made Available	\$46 million
Amount Guaranteed	\$19 million

Location	Sector	Credit Made Available
Jordan	SME	\$5 million
India	Energy	\$20 million
Indonesia	SME	\$16.4 million
West Bank/Gaza	SME	\$5.5 million

1999 – 2005 SUMMARY

Number of Guarantees	27
Total Credit Made Available	\$205.5 million
Amount Guaranteed	\$92.9 million
Number of Countries	9

GUARANTEES BY PROJECT AREA



Regional Summary

In the Asia Near East region, several health crises and recent natural disasters, as well as growing issues relating to fast-expanding populations, poor infrastructure, and weak governance have challenged local development and regional stability over the past year. USAID is actively involved in efforts to address many of these challenges, including creating jobs and revitalizing the private sector. USAID has offered credit guarantees to private financial institutions in several countries to encourage investment in new markets, such as renewable energy, and to new borrower groups, such as microenterprises and small businesses. The guarantees complement USAID’s training and technical assistance by developing linkages between local borrowers and private lenders. Active guarantees in the region have promoted private financing for infrastructure upgrades of local water and sewerage systems, supported the creation of municipal “revolving funds” (a source of funds from which loans are made, and as they are repaid, become available to lend again), brought new investors to local capital markets, advanced agricultural production, and generated financing for smaller urban and rural businesses. Each of these efforts involves private capital and creates the potential for sustained financing of development projects.

Guarantee Descriptions

India

India is the second most populous country in the world, as well as one of the fastest growing economies, averaging approximately seven percent annual growth over the past few years. In stark contrast, India’s power sector is characterized by antiquated technology, inefficient facilities, and financially strapped companies. USAID is supporting the development of India’s energy and environmental sectors by focusing on both energy supply and demand. Through a 10-year, US\$20 million loan portfolio guarantee with YES Bank, USAID is increasing the bank’s financing of small and medium enterprises (SMEs) that invest in small-scale renewable energy projects. These projects are intended to augment energy supply from solar, biomass, hydro, and wind-generated power. Yes Bank can also use the guarantee to cover investments in water conservation and management, as well as the manufacturing of energy-efficient products that reduce energy demand. The innovative structure of USAID’s guarantee allows Yes Bank to lower its 50 percent coverage for loans the bank deems less risky. This ‘variable rate’ structure enables Yes Bank and USAID to support investments that total more than US\$20 million.

Jordan

Small and medium enterprises play an essential role in creating jobs and increasing economic growth in developing economies. However, these businesses are often challenged by limited access to credit. In Jordan, a USAID credit guarantee will cover US\$5 million loans made by the Bank of Jordan to SMEs across all sectors, with an emphasis on financing businesses that provide inputs to exporters, such as loans for equipment or technology. By complementing established USAID technical assistance programs. The guarantee expands private investments in Jordan’s smaller businesses while increasing the devel-

opment impact of each program. The access to capital and business assistance from USAID bolsters SMEs' ability to expand production, improve operating efficiencies and increase employment.

West Bank/Gaza

Due to the election of Hamas on January 25, 2006, this deal, which was implemented in July 2005, is on hold until further notice.

Local private banks in the West Bank and Gaza follow conservative lending practices that have helped them maintain liquidity and improve loan portfolio quality. However, these practices significantly reduce the banks' willingness to lend to most small and medium-sized enterprises (SMEs). As a result, these businesses, especially the new enterprises, often have to utilize personal savings, informal moneylenders, or advances from suppliers to cover working capital needs instead of attempting to access bank loans. To help address this issue, USAID is guaranteeing up to US\$5.5 million in credit from the Bank of Jordan to West Bank and Gaza SMEs that cannot access commercial capital due to insufficient collateral and a lack of credit history. The guarantee complements USAID's work to support economic and financial sector reforms, as well as business and trade development in the West Bank and Gaza. Several loans have already been made.

Highlighted Guarantee

Microcredit for Indonesia's Smallest Businesses

Hundreds of thousands of people in Indonesia were physically and economically affected by the devastating tsunami and earthquakes that struck Indonesia in December 2004 and March 2005. As those people work to rebuild their lives and livelihoods, many need financing for their small businesses and microenterprises. To help them access credit, USAID has partnered with Bank Danamon, Indonesia's second largest private bank, to support it in providing up to US\$16.4 million in new loans to borrowers in Banda Aceh and Northern Sumatra. USAID's guarantee will cover up to 50 percent of the risk on loans to micro and small enterprises from Danamon Simpan Pinjam (DSP), Bank Danamon's microfinance division. The loans will, in part, be directed to smaller businesses operating in tsunami-affected regions. By reducing the potential risk involved in making these loans, USAID is helping the bank resume and expand lending activities in tsunami-affected areas where it had previously operated. Danamon currently has three DSP units in Banda Aceh and plans to open another in 2006. DSP's positive experience lending to certain small businesses in the past has motivated it to lend to a broader group of small business clients, including small street vendors, farmers, fishermen, and agro-processors. USAID continues to provide substantial assistance to strengthen government regulations and promote transparent business services that will boost the development of both microfinance and other financial sectors. Through USAID's guarantee, 177 loans to Indonesia's smallest businesses are already helping the economic revitalization of devastated regions as part of the U.S. Government Indian Ocean Tsunami Relief, Rehabilitation, and Reconstruction efforts.



Photo: USAID/William Feederer

Traders like this woman who sells vegetables in a Banda Aceh market are one of the borrower groups intended to benefit from a USAID guarantee to Bank Danamon in Indonesia.

Europe and Eurasia – Year in Review



2005 SUMMARY OF GUARANTEES

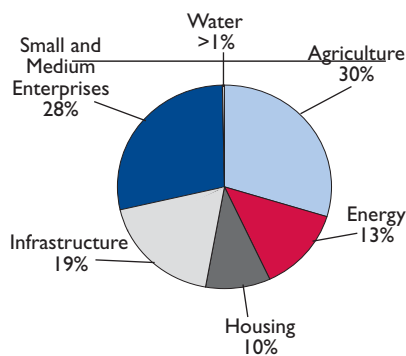
Number of Guarantees	6
Total Credit Made Available	\$59 million
Amount Guaranteed	\$25 million

Location	Sector	Credit Made Available
Albania	SME	\$12 million
Armenia	SME	\$12 million
Bulgaria	Infrastructure	\$15 million
Georgia	Agriculture	\$6 million
Moldova	Agriculture	\$4 million
Serbia	Municipal	\$10 million

1999 – 2005 SUMMARY

Number of Guarantees	37
Total Credit Made Available	\$285.5 million
Amount Guaranteed	\$123 million
Number of Countries	13

GUARANTEES BY PROJECT AREA



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changes in the legal and regulatory environment in countries, USAID offices in Bulgaria and Serbia designed new guarantees to stimulate municipal lending from the private sector for local infrastructure development. These guarantees enable municipalities to undertake critically-needed infrastructure investments. In Albania and Serbia, USAID partial credit guarantees were used for the first time, adding to the number of countries in the region's existing guarantee portfolio. Armenia, Bulgaria and Moldova, which have active guarantees, created new public-private partnerships using guarantees to engage additional banks in financing underserved sectors. These partnerships help build a platform for greater agricultural, and small and medium enterprise development, each of which USAID considers a high-priority sector in the region.

Guarantee Descriptions

Albania

Micro, small, and medium-sized enterprises are the driving force of Albania's economic growth. However, their development is often impeded by a lack of access to commercial financing. Banks' collateral requirements, which can exceed 150–200 percent of the loan requested, are too high for many private enterprises. Without the ability to claim on significant sources of collateral, banks are reluctant to lend. To improve borrowers' access to capital, USAID has provided a guarantee to Raiffeisen Bank Albania to partially cover up to US\$12 million in new loans to product or service-oriented micro, small, and medium-sized businesses. The aim is to encourage Raiffeisen, and, by example, other banks, to expand lending beyond their large and well-established client base to smaller Albanian businesses with commercial credit needs. Over time, the guarantee is intended to improve the availability of affordable financing, boost the development and participation of smaller businesses in domestic and foreign markets, and facilitate Albania's integration into global markets.

Bulgaria

Despite recent improvements in the legal and regulatory environment for Bulgaria's municipalities, credit is still not being extended to many municipalities in Bulgaria, particularly smaller cities. USAID has provided a guarantee to HVB Bank Biochim, a private commercial bank, to promote increased investment in local municipal infrastructure. The loan portfolio guarantee partially covers up to US\$15 million in financing for selected municipalities undertaking critically-needed infrastructure improvements. HVB's activity may encourage other lenders to enter the market, creating more competition and potentially more favorable lending terms. With access to a reliable source of financing, small and medium municipalities can address local infrastructure needs, establish a track record of loan repayments, and better serve their communities. The activity, as a whole, is intended to stimulate capital market growth and may become a model for infrastructure finance, boosting the impact of Bulgaria's financial sector reforms.

Armenia

Restrictive lending policies by Armenian banks have hindered local businesses' ability to seize new investment opportunities. Financial institutions like the start-up, Cascade Credit, have had difficulty obtaining loans. USAID is providing a partial guarantee to Cascade to help the new company raise capital to lend to small and medium-sized Armenian exporters. The guarantee, which will cover 50 percent of investors' loss in case of default, up to a total of US\$6 million, will make Cascade's debt offering more attractive to potential investors. The commercial paper, once issued, will be tradable on Armenia's Stock Exchange, increasing investment options in the capital markets.

Moldova

In Moldova, commercial loans to rural micro, small, and medium-sized enterprises (MSMEs) are often seen as high-risk investments. As a result, these businesses are often charged high interest rates and required to provide collateral up to double the loan amount, making the loans unaffordable. USAID is partnering with FinCom Bank to encourage it and by example, other financial institutions, to lend to MSMEs. Through the use of a loan portfolio guarantee, USAID is sharing the risk on up to US\$4 million in new loans from FinCom to financially-viable enterprises identified as engines of employment and economic growth. This access to capital can strengthen smaller businesses and, ultimately, help them to compete in export markets. FinComun loans of over \$1.3 million are already helping 33 businesses involved in agriculture.

Serbia

In Serbia, the government is strongly encouraging local municipalities to improve local infrastructure to help local businesses and attract new ones. A lack of private financing has made many smaller cities dependent on the central government and international donors for funding. USAID has stepped in to guarantee loans from Raiffeisen Bank Serbia to local municipalities that enables them to access longer-term private capital. USAID's guarantee partially covers up to US\$10 million in municipal loans to promote private financing of local infrastructure improvements. The guarantee is also intended to foster healthier market-based relationships between private banks and Serbia's municipalities.

Highlighted Guarantee

Growing Opportunities for Georgian Banks

Most Georgian banks do not lend to businesses involved in agriculture, viewing them as too high-risk. The lack of financing hinders growth of the agricultural sector. USAID has been working to engage the country's commercial banks in lending to small and medium-sized agricultural enterprises. Assistance includes training and a credit guarantee for Bank Republic, a private lender, covering part of their risk on up to US\$6 million in new loans. The activity is intended to demonstrate that investments in agricultural can be profitable when risk is prudently managed and thereby prompt other commercial banks to finance similar activities. USAID's work complements broader efforts to spur economic growth in Georgia. The recent signing of a Millennium Challenge Compact by the President of Georgia and U.S. Secretary of State Condelezza Rice represents US\$295 million in funding from the United States for projects, in part, focused on rural business development.



Gagik Hovhannisyan (middle) is part owner of Tamara-1, a meat processing plant that represents one of many small businesses in Armenia. Shown here with Tigran Hovhannisyan, former Chief Executive Officer for Cascade Credit, right and Kathleen Wu, Chief Risk Officer, USAID, left.

Latin America and the Caribbean – Year in Review



Regional Summary

Across Latin America and the Caribbean last year, innovative new uses for credit and credit guarantees were being designed to fit local financing needs. Among the region's activities, in Grenada, a USAID guarantee is supporting increased lending to businesses damaged by Hurricane Ivan. Other guarantees are being used to mobilize trade finance in preparation for the successful implementation of the Dominican Republic Central American Free Trade Agreement. In Peru, alternative development is receiving greater financial support through three USAID guarantees that are increasing access to credit for small licit businesses in high priority Alternative Development Zones. Throughout the region, USAID is consistently using partial guarantees, often along with training and other technical assistance, as a key tool to achieve local development objectives.

2005 SUMMARY OF GUARANTEES

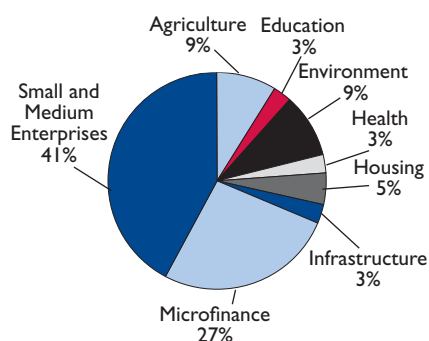
Number of Guarantees	9
Total Credit Made Available	\$42 million
Total Amount Guaranteed	\$21 million

Location (No. of Guars)	Sector	Credit Made Available
Ecuador	Microfinance	\$5 million
El Salvador (2)	SME	\$12 million
Grenada	SME	\$4 million
Honduras	SME	\$2 million
Jamaica	SME	\$5 million
Peru (3)	Microfinance	\$14 million

1999 – 2005 SUMMARY

Number of Guarantees	40
Total Credit Made Available	\$180 million
Amount Guaranteed	\$82 million
Number of Countries	11

GUARANTEES BY PROJECT AREA



Guarantee Descriptions

Ecuador

Microfinance is a small but fast growing sector of the banking industry in Ecuador. Banco ProCredit, an aggressive commercial bank that focuses on microcredit, received a USAID bond guarantee to help it tap private financing in the local capital market. This bond issue is the first of its kind to focus on microfinance in Ecuador. USAID's guarantee will cover 50 percent of Procredit's US\$5 million in bonds to reduce the risk of loss for investors and increase investor interest in the bond's sale. Over time, timely repayment of the bonds will help Procredit develop a reputation in the country's financial markets as a creditworthy institution. By effectively expanding Banco ProCredit's financial services to low-income groups, USAID's guarantee should help pave the way for other microfinance institutions to access capital from the local credit market.

Grenada

In September 2004, the island of Grenada was devastated by Hurricane Ivan. Businesses damaged by the storm were unable to obtain financing to rebuild and re-open due to a lack of viable collateral. USAID's support for the country's reconstruction - as part of the U.S. response to the devastation - included providing a partial guarantee on up to US\$4 million in financing from the Royal Bank of Trinidad & Tobago (RBTT), a private commercial bank operating on the island. With the guarantee, RBTT has provided loans to 43 businesses to finance reconstruction of badly damaged buildings and offices.

Honduras

Fundación Covelo, a Honduran microfinance institution, gives loans to micro and small enterprises engaged in non-traditional agriculture, specialty coffee, or light manufacturing. In 2003, a USAID guarantee was used to test the financial markets' interest in lending to agribusinesses. Through it, Covelo made 132

Latin America and the Caribbean

loans totaling \$500,000, confirming both the potential interest as well as demand for financing in the agriculture sector. Following the success of the pilot, USAID designed a second guarantee for up to US\$2 million to expand on Covelo's initial lending activity and to complement existing technical assistance to borrowers growing non-traditional crops and operating small-scale food processing facilities. The new guarantee has already helped Fundación Covelo make nearly \$500,000 in new loans to micro, small and medium-sized enterprises throughout Honduras.

Jamaica

Many small and medium-sized businesses in Jamaica are women- and family-owned and operated. They are often entrepreneurial enterprises with limited collateral, intermittent cash flows and long-term financing needs. One of Jamaica's leading financial institutions, the National Commercial Bank Jamaica Limited (NCB), is using a USAID loan portfolio guarantee to expand lending to these groups, up to US\$5 million. The guarantee will cover new loans to key competitive industries such as agriculture, tourism, art and manufacturing.

Peru

USAID has set up loan portfolio guarantees with three financial institutions—Edypme Confianza, CMAC Piura, and CMAC Sullana—to improve access to credit for Peru's smaller enterprises, especially those focused on alternative development. The guarantees are intended to diminish the risk financial institutions perceive in lending to agribusinesses and promote longer-term lending to microenterprises. In total, the three guarantees cover up to US\$7 million, encouraging the financial institutions to lend in targeted geographic areas and to improve lending in rural areas—especially for the agro-industrial sector. Nearly 1,000 loans have already been made, supporting local microenterprises.

Highlighted Guarantee

El Salvador's Smaller Businesses Get Credit

The restrictive lending practices of private banks prevent many small and medium-sized enterprises (SMEs) from taking out private loans. High collateral requirements and short repayment periods can double or triple the cost of financing for small businesses. To help SMEs in El Salvador, USAID is partially guaranteeing loans made by two local commercial banks, Banco Salvadoreño and Banco ProCredit. Together the guarantees enable the banks to offer up to US\$12 million in medium and long-term lending, as well as increased loan amounts and reduced collateral requirements. The expanded investments benefit El Salvador's smaller businesses, which can now access loans that fit their operational and financial needs. The reduced risk to each bank helps them serve a larger number of clients and diversify their lending activities.



Photo: USAID/Chris Ray

Harvesters pick onions on a small farm in Peru. The farm is one type of business covered by USAID guarantees from three local microfinance institutions for agricultural loans.



Photo: USAID/Kar en Azucena

Mr. Mark Silverman, Mission Director, USAID/EI Salvador and Maria Eugenia Brizuela de Avila, President of Banco Salvadoreño, hold up the newly-signed guarantee agreement at a ceremony announcing USAID's partnership with the bank in August 2005.

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