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ADS Chapter 249

Development Credit Authority

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Table of Contents

249.1 OVERVIEW 3

249.2 PRIMARY RESPONSIBILITIES 3

249.3 POLICY DIRECTIVES AND REQUIRED PROCEDURES 5

***249.3.1 Guiding Principles 6**

249.3.2 Selected Statutory Provisions 10

249.3.3 Planning 11
249.3.3.1 Strategic Planning 11
249.3.3.2 Pre-Obligation Requirements 11
249.3.3.3 Activity Development and Design 12

249.3.4 Loan Guarantees 14

249.3.5 Direct Loans [RESERVED] 16

249.3.6 DCA Appropriations Process 16

249.3.7 Procurement Source and Origin Rules 16

249.3.8 Audit and Evaluation 16

249.3.9 Guarantee Claims 17

249.3.10 Budget Programming and Funds Transfer Processes (Credit Subsidy and Operating Expense (OE) Costs and Transfer Authority) 17

249.3.11 Financial Management 18
249.3.11.1 DCA Financial Transactions 19
249.3.11.2 Pipeline/Accruals 19

249.3.12 Authorization and Obligation 20

249.3.13 Deviations 20

249.4 MANDATORY REFERENCES 20

*An asterisk indicates that the adjacent information is new or substantively revised.

249.4.1 External Mandatory References 20

249.4.2 Internal Mandatory References 20

249.5 ADDITIONAL HELP 21

249.6 DEFINITIONS 21

*An asterisk indicates that the adjacent information is new or substantively revised.

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 generally does not exceed 50 percent.

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 substantial 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 are more manageable.

249.2 PRIMARY RESPONSIBILITIES

Effective date: 06/01/2006

a. Missions and Bureaus/Independent Offices are responsible for executing 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/Bureaus/Independent Offices have sole responsibility for the developmental soundness of DCA activities.

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

c. The **Bureau for Economic Growth, Agriculture and Trade (EGAT) Office of Development Credit (EGAT/DC)** is responsible for the following:

- Establishing and maintaining technical and financial expertise, including DCA credit expertise, and making such expertise available to Missions under its Mission support role;
- Performing DCA risk assessments and portfolio management; and

- With support from PPC and M/CFO, monitoring and managing DCA Accounts as necessary to manage the claims process and other disbursements necessary to service DCA activities.

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

e. The **Bureau for Management, Office of the Chief Financial Officer (M/CFO)** is responsible for providing financial management services for all DCA-funded activities.

f. The **Chief Financial Officer (CFO)** is responsible for approving the final determination of credit subsidy cost of each proposed DCA activity and ensuring that the Agency is in compliance with **OMB Circular A-129**. The CFO also chairs the Credit Review Board (CRB) or designates the deputy CFO or other senior official within M/CFO to chair the Credit Review Board.

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.

h. The **Office of the General Counsel (GC)**, acting through GC/EGAT 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. In addition, PPC designates a budget officer for DCA, whose responsibilities include the following:

- Serving as 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; and
- Ensuring the timely completion of DCA funds transfers, in coordination with Missions/Bureaus/Independent Offices, geographic Bureaus, M/CFO, and the Bureau for Program and Policy Coordination, Office of Resource Allocation (PPC/RA).

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. They are responsible for taking the lead

*An asterisk indicates that the adjacent information is new or substantively revised.

role in project implementation and project management because they bear substantial risk in every DCA project.

249.3 POLICY DIRECTIVES AND REQUIRED PROCEDURES

Effective date: 06/01/2006

DCA is a low-cost tool to introduce private lenders and investors to creditworthy but underserved markets. It is based on the well-supported premise that sustainable economic growth is much more likely to occur when private financial markets in developing countries mobilize domestic capital and put it to work. The level of credit provided to the private sector in most developing countries, relative to Gross Domestic Product, is just a fraction of the level of credit provided in developed countries. There is a widespread lack of access to credit for micro, small and medium enterprises and across all sectors, including housing, infrastructure, agriculture, education, and health. This lack of access to credit is a major impediment to economic growth.

Despite the low level of credit provided to the private sector, banks and other financial institutions in developing countries have substantial capital. Personal savings and other capital mobilized by banks are often allocated to short-term government bonds or left in cash positions, rather than loaned out to private sector enterprises. DCA guarantees seek to unlock much of this capital and redirect it toward productive private sector investments that can fuel economic growth.

DCA cannot be used for loans or guarantees to sovereigns, which could be subject to Paris Club rescheduling. The Paris Club refers to the informal mechanism by which sovereign creditors voluntarily agree to reschedule defaulted sovereign debt of developing countries. DCA is intended for use when 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/Bureaus/Independent Offices two to 14 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/Bureaus/Independent Offices have the flexibility to 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/Bureau/Independent Office, termed the "subsidy cost," to issue a loan or guarantee, is determined by EGAT/DC using risk assessment models approved by OMB. The subsidy cost is then approved by the Agency's Chief Financial Officer (CFO).

*249.3.1 Guiding Principles

Effective date: 03/01/2007

The following are guiding principles of DCA:

a. DCA is 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 rather, a financing tool for all Missions/Bureaus/Independent Offices, to be used in addition to, or instead of, other forms of assistance.

c. DCA loan guarantees are generally preferable to direct loans.

d. DCA is a demand-driven initiative, with Missions/Bureaus/Independent Offices having primary responsibility for designing, authorizing, and implementing activities in support of approved Strategic Objectives and within Administration and Congressional priorities for assistance. Missions/Bureaus/Independent Offices should request assistance from USAID/W technical specialists for any of these responsibilities, as needed.

e. DCA responsibilities are divided between Missions and USAID/W. Missions/Bureaus/Independent Offices will develop monitoring plans in conjunction with EGAT/DC for monitoring the financial and credit performance of DCA activities, as outlined in **ADS 623, Financial Management of Credit Programs**. Missions/Bureaus/Independent Offices are responsible for development soundness. The CRB and CFO are responsible for financial soundness. DCA may only be used where there are reasonable prospects of repayment. When the expected cumulative default costs of a DCA activity, as calculated by EGAT/DC, exceeds 15 percent of the principal amount to be loaned, a special written justification to the Credit Review Board from the Agency's Chief Risk Officer is required. Such special written justification must indicate why the Chief Risk Officer has determined that there is a reasonable assurance of repayment of the guaranteed loans or direct loans.

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 Agency's Chief Risk Officer provides a special written justification to the Credit Review Board and 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 be met where USAID's risk-sharing partner:

- Is placing its own capital at risk,
- The partner is a private nongovernmental entity or government-owned financial institution with a profit motive or the equivalent, and
- Is likely to sustain substantial net losses if defaults occur.

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, unless the Agency's Chief Risk Officer provides a special written justification to the Credit Review Board and the CFO approves. This is true despite 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.

In some instances, there may be strong developmental benefits from offering a DCA guarantee under which USAID does not bear losses on an equal footing basis with a private lender, but instead, USAID provides a credit enhancement that allows for claims to be made under the guarantee prior to a senior lender incurring losses. In such cases, a DCA guarantee is permissible if the ultimate exposure to USAID is no more than 50 percent of the entire debt financing for the project and the Agency's Chief Risk Officer provides a special written justification to the Credit Review Board for the proposed structure. The written justification must include an analysis of why there is a reasonable assurance of repayment.

The presence of substantial capital in such a project by equity investors or subordinated debt investors that will incur losses prior to USAID helps ensure that there is true private-sector risk sharing in such projects. Since such

investors will incur losses prior to USAID incurring losses, they have a strong incentive to exercise prudent risk management that mitigates the risk of loss to USAID. Such a structure may be particularly appropriate for bond transactions or structured finance transactions, in which achieving the desired credit rating from an independent rating agency will require USAID to incur claims under its guarantee, prior to a default to the bondholders.

***g.** In the case of a Loan Guarantee, Bond Guarantee, or Portable Guarantee, DCA supported 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. In the case of a Loan Portfolio Guarantee (LPG), DCA supported financing must not be used, unless the overall portfolio of loans originated under the LPG would not go forward without the DCA support (see **Section 249.3.1.r**), 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 should reflect market rates. Any question regarding market rates must be resolved through joint consultation with the Mission/Bureau/Independent Office and EGAT/DC.

i. DCA fee structures must be designed to reflect both the risk entailed in the activity and USAID's desire to minimize to the extent possible any subsidy associated with its credit programs, as well as to encourage utilization. When determining appropriate fees for a project, USAID should take into consideration local practice, the development rationale of the project, as well as estimates of risk-adjusted fee levels for such loans or guarantees. EGAT/DC is responsible for establishing an appropriate range of fees for different risk categories and recommending the minimum appropriate level for fees for each project. The sponsoring Mission/Bureau/Independent Office will then determine the final fee level to be charged.

j. The Agency strongly discourages currency mismatches. Currencies earned by DCA activities must match the borrowers' liabilities, unless adequate currency exchange structures are in place.

k. DCA is 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.

l. DCA is 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 or regional priorities and as part of an exit strategy in countries where USAID assistance is being phased out.

m. DCA is 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 the Organization for Economic Cooperation and Development Tied Aid and Export Credit Arrangements), DCA activities will use U.S. technology, firms, and equipment. (See **H.R. 1486 section (d)(8)**)

p. Sovereign governments are not eligible as DCA borrowers or lenders. Subsovereign (i.e., non-sovereign governmental entities, such as states, municipalities, and local governments) and parastatal entities (i.e., government-funded or-owned organizations that are often otherwise independent of government) are eligible to receive assistance under DCA if they are eligible to receive development assistance under the FAA.

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). DCA activities must provide a reasonable assurance of repayment. The CFO makes all final determinations regarding the financial viability and credit-worthiness of a DCA activity. Where host government or donor subsidies are required, such subsidies should be firmly identified and committed, and not amorphous or open-ended.

***r.** The sponsoring Mission/Bureau/Independent Office must economically justify each activity. An economically justified 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 guarantor/lender of last resort to bridge these market imperfections. An economically justified activity is also an activity that is "additional." A project is "additional" if it would not go forward on comparable terms without the support of a DCA guarantee. In the case of Loan Portfolio Guarantees (LPGs), the economic justification should be described and

evaluated in terms of the desired impact on lending to a particular sector, rather than on a loan-by-loan basis.

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

t. Prior to submission to the CRB for review, the Agency's Chief Risk Officer must review each project to determine the credit risk and whether there is a reasonable assurance of repayment. A recommendation to approve or disapprove the activity by the Chief Risk Officer should accompany each activity when presented to the Credit Review Board.

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 **Foreign Assistance Act (FAA)**, applicable to development assistance activities, also apply to DCA activities, as appropriate. (See **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 **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 **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 **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 **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 **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 **H.R. 1486 section (d)(5)**)

249.3.3 Planning

Effective date: 06/01/2006

The planning process that guides DCA guarantee development begins with Mission/Bureaus/Independent Offices deciding how DCA fits within its strategy. As needed, EGAT/DC offers guidance in making this decision. Thereafter, Mission/Bureaus/Independent Offices, with support from EGAT/DC, design and structure specific DCA guarantees in preparation for presenting the guarantee to the CRB for approval by the CFO.

249.3.3.1 Strategic Planning

Effective date: 06/01/2006

USAID policy and guidance related to strategic planning applies to DCA as they do to other tools used to achieve Agency and Mission/Bureau/Independent Office objectives. Mission/Bureaus/Independent Offices should consider incorporating DCA into their strategies at the planning stage and should include DCA in the Congressional Budget Justification (CBJ). Program officers, financial managers and others should keep in mind that DCA guarantees anticipate that expenditures will be made throughout the life of the agreement and as such, are often not expected to be completed prior to the corresponding Strategic Objective end date. Under DCA projects, funds are transferred from the DCA Program Account to the DCA Financing Account as loans are disbursed by the guaranteed lender. These transfers are recorded as expenditures against the Bureau/Independent Office's obligation of an amount equal to the subsidy cost; such expenditures may occur after the relevant Strategic Objective end date.

249.3.3.2 Pre-Obligation Requirements

Effective date: 06/01/2006

Pre-Obligation requirements that apply to other USAID acquisition and assistance instruments apply to DCA as well, including Environmental Procedures (See **ADS 204, Environmental Procedures** and **22 CFR 216**). In many instances, however, the Categorical Exclusion set forth in 22 CFR 216.2(c)(x) applies for loan portfolio guarantees.

249.3.3.3 Activity Development and Design

Effective date: 06/01/2006

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 Justification and Financial Viability Analyses. EGAT/DC, with assistance from Missions/Bureaus/Independent Offices, will analyze the economic justification and financial 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 is 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. A Mission contemplating a DCA activity should consult with EGAT/DC 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 the Mission sending a one- or two-page summary proposal of the activity to its own regional Bureau representative, who in turn shares it with the EGAT Bureau's Development Credit Office (EGAT/DC). EGAT/DC will assist Missions/Bureaus/Independent Offices in the design of creditworthy DCA activities, including developing appropriate financial structures and documents for proposed activities. The EGAT/DC 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. This preliminary risk assessment and credit subsidy cost estimate of a proposed activity will assist a Mission/Bureau/Independent Office to determine whether the budget cost of a proposed DCA activity is affordable to the Mission/Bureau/Independent Office.

(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 a detailed activity design, while

EGAT/DC begins the required risk assessment. Mission economists, contractors, EGAT sectoral and/or credit experts, and other Agency units are available upon request to assist in the design and analysis processes, including coordination with EGAT/DC in its efforts to prepare risk assessments. EGAT/DC is responsible for preparing and presenting independent and objective credit risk assessments for review by the Credit Review Board (CRB). EGAT/DC also provides specific support to the CRB on the Agency's credit guidelines and other matters related to credit risk in the Agency's loan and guarantee portfolio.

(3) The end result of the detailed design process is an Action Memorandum from the Mission/Bureau/Independent Office through the CRB to the CFO. The Action Memorandum, which includes an activity description of the DCA project, indicates internal Mission/Bureau/Independent Office approval of the activity and requests the CFO to determine and/or confirm the following:

(a) the final subsidy cost to be charged to the Mission/Bureau/Independent Office, and

(b) that there is a reasonable assurance of repayment of obligations covered under the guarantee.

(4) The CRB reviews the Action Memorandum and makes a recommendation to the CFO to approve or disapprove the activity. This review includes the following:

(a) The financial soundness of specific DCA transactions and a reasonable assurance of repayment of the obligations covered by the prospective USAID loan or guarantee (See **sections 249.3.1q** and **249.3.1t**);

(b) The economic justification for the proposed activity (See **section 249.3.1r**); and

(c) The final estimated credit subsidy cost of proposed activities.

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/Bureau/Independent Office has already received an allocation of DCA budget authority or transfer authority, the Mission/Bureau/Independent Office is free to finalize and execute the loan or loan guarantee agreement (in conjunction with GC lawyers). It is also free to begin activity implementation, subject to the satisfaction of the Congressional Notification (CN) requirement discussed in item 6, below. The execution of the loan or guarantee

agreement constitutes obligation of the DCA budget authority. 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, in coordination with Bureau for Program and Policy Coordination, Office of Resource Allocation (PPC/RA).

(6) After the CFO approves an activity, the Mission/Bureau/Independent Office prepares a Congressional Notification (CN), unless the activity has already been noted in the Congressional Budget Justification (CBJ). The Mission/Bureau/Independent Office clears the CN, following its normal procedures.

249.3.4 Loan Guarantees

Effective date: 06/01/2006

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

a. DCA guarantees can be for either dollar- or non-dollar-denominated debt. However, in the latter case, the total USAID contingent liability must be capped or limited in dollar terms, unless otherwise agreed to by the Office of Management and Budget (OMB).

b. Beneficiaries of the USAID guarantee generally are required to pay a semi-annual utilization fee, based on the guaranteed portion of outstanding principal of the guaranteed loan. The authorizing official may set the utilization fee at not less than the minimum appropriate fee, as recommended by EGAT/DC. In addition, the authorizing official may set a one-time activity origination fee (also known as “commitment fee”) of not less than the minimum appropriate fee, as recommended by EGAT/DC.

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. If the authorizing official, in consultation with EGAT/DC, determines that the origination fee should be waived, the utilization fee must be adjusted accordingly, as determined by EGAT/DC. The fee structure must be justified in the activity description.

c. 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.

d. Missions/Bureaus/Independent Offices can 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.

e. Missions can reserve the right to approve the interest rate and other terms and conditions of loans to be guaranteed.

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

(1) **Loan portfolio guarantees**, in which 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) **Loan guarantees**, in which USAID uses DCA for specific credit enhancement purposes and the borrower, lender, and uses of the loan proceeds are known.

(3) **Portable guarantees**, in which USAID uses 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**, in which USAID shares the risk of loss with investors on a bond issuance. This mechanism is used for municipal or private sector financing.

g. Sponsoring Missions/Bureaus/Independent Offices are responsible for drafting and signing obligating agreements in cooperation with, and subject to, approval by Agency lawyers. Agency lawyers should draft guarantee agreements using the most recent precedent agreements provided by GC/EGAT, and Agency lawyers should contact GC/EGAT with any questions concerning guarantee agreements. Authorizing officials have the authority to negotiate and sign guarantee agreements with the appropriate input and clearance from GC.

Sponsoring Missions/Bureaus/Independent Offices must forward copies of guarantee agreements, when executed, to EGAT/DC.

249.3.5 Direct Loans [RESERVED]

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 cannot 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 can directly appropriate a specific "subsidy" dollar amount for the DCA Account in a line item appropriation. In addition, or alternatively, Congress may appropriate "transfer authority" (as in Fiscal Years 2001 through 2006), authorizing the transfer of up to a stated amount of appropriated funds in specified appropriation accounts to the DCA Program Account to cover the estimated subsidy costs of approved activities.

USAID generally prefers DCA transfer authority to direct appropriations because it gives Missions/Bureaus/Independent Offices maximum flexibility and maximum "ownership." Direct appropriations may be desirable to address Presidential initiatives or regional or global priorities. With transfer authority, Missions are free to 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.

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 **H.R. 1486 section (d)(2)**) However, the DCA statute requires that DCA activities, to the maximum extent practicable, use U.S. technology, firms, and equipment.

249.3.8 Audit and Evaluation

Effective date: 01/28/2002

EGAT and the Bureau for Policy and Program Coordination are responsible for DCA program-wide evaluations. Each Mission/Bureau/Independent Office is responsible for evaluating its activities under DCA, and obtaining audited financial statements of local intermediate financial institutions and/or borrowers, and other information, as needed by EGAT/DC, to calculate annual subsidy cost re-estimates. The CRB is responsible for 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. 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: 06/01/2006

EGAT/DC is the focal point for investor or lender claims under DCA guarantees. In this role, EGAT/DC will review the DCA portfolio for signs of increased loan default, based on semiannual reports, claims processing, and other available information. It will troubleshoot problem DCA loans or guarantees in coordination with Missions/Bureaus/Independent Offices.

Once claims are received, Missions/Bureaus/Independent Offices must forward claims to EGAT/DC. EGAT/DC is responsible for determining the validity of claims. EGAT/DC can request Mission/Bureau/Independent Office assistance in collecting supplemental documentation from the guaranteed party if necessary. EGAT/DC can also request Mission/Bureau/Independent Office clearance prior to processing the claim. M/CFO, together with EGAT/DC, then arranges for the disbursement and delivery of funds to the guaranteed party, as indicated in **ADS 623.3.2**. EGAT/DC manages the DCA Financing Accounts with support from PPC and M/CFO, which includes annual budget estimates and making funds available to pay claims. EGAT/DC also performs annual subsidy re-estimates on the DCA Financing Accounts, as required under the Federal Credit Reform Act and regulations.

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

Effective date: 06/01/2006

USAID's annual budget guidance to the field instructs Missions/Bureaus/Independent Offices to include requests for DCA budget authority. Ideally, the request for DCA budget authority will be included, along with requests for the Mission's program and operating expense (OE) budget. Missions/Bureaus/Independent Offices should also estimate and include in their budget requests their OE expenditures attributable to DCA activities, according to guidance issued by the Agency.

When a DCA activity is approved and the subsidy cost determined, the Mission/Bureau/Independent Office must transfer funds from its OYB into the DCA Program 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:

(1) For Missions, the regional Bureau makes an appropriate reduction from the funds allowed to the Mission, thus regaining USAID/W control of the necessary funds. PPC/RA reduces the regional Bureau allotment by an appropriate amount.

(2) The regional Bureau drafts a transfer letter to OMB notifying it of USAID's intention to transfer funds into the DCA Program Account. This letter is signed by the Director, Office of Resource Allocation, and forwarded to M/CFO. M/CFO prepares an apportionment request to OMB 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 Program Account. The signed transfer letter is included as an attachment to this apportionment request.

(3) OMB approves two apportionments: (a) to reduce the budget authority in the originating account, and (b) to increase the budget authority in the DCA Program Account. M/CFO posts the apportionments in Phoenix and processes the physical transfer of funds at Treasury.

(4) PPC/RA makes an allotment of the DCA budget authority to the regional Bureau.

(5) The regional 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). For Missions using Phoenix, the DCA authority is available through the regional Bureau posting of the budget allowance.

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

M/CFO and Missions/Bureaus/Independent Offices are responsible for the financial management of DCA guarantees in terms of fee payments, claim payments, USAID financial statements, expenditures, and accruals.

249.3.11.1 DCA Financial Transactions
Effective Date: 01/28/2002

In accordance with **ADS 623**, 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 normally billed directly to guaranteed parties by the financial intermediary selected by M/CFO to perform such functions. Depending on the agreement between USAID and the Guaranteed Party and/or lender, Mission Controllers may be required to collect local currency fee payments and to make local currency claims payments. M/CFO provides loan-servicing functions in conjunction with the same private financial intermediary under an accounting and Paying and Transfer Agent contract. M/CFO manages this 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. Mission Controllers may be asked to assist in collection efforts and otherwise help to ensure that borrowers perform certain responsibilities under DCA assistance.

M/CFO is responsible for preparing DCA financial reports, as required, in addition to including DCA operations as an integral part of the audited Agency Consolidated Financial Statements; notifying Missions/Bureaus/Independent Offices of expenditure amounts under a DCA obligation on a periodic and timely basis; and maintaining account balance information for the DCA Accounts.

249.3.11.2 Pipeline/Accruals
Effective date: 06/01/2006

DCA subsidy obligation pipelines generally will vary from the standard (See **ADS 602, Forward Funding of Program Funds**). M/CFO calculates expenditures of DCA guarantee subsidy obligations, based upon loan disbursements from the guaranteed lender. As a result, expenditures are not under the direct control of Mission/Bureaus/Independent Offices. Consequently, Mission/Bureaus/Independent Offices should note the existence of DCA subsidy obligations, where these obligations cause their pipelines to exceed the program standard.

Missions/Bureaus/Independent Offices are responsible for posting accruals of expenditures against DCA subsidy obligations where appropriate. For guidance on the treatment of accruals, Mission/Bureaus/Independent Offices should refer to **ADS 631, Accrued Expenditures**, or contact M/CFO.

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/Bureaus/Independent Offices must use procedures and forms for authorizing and approving a DCA activity that are consistent with those used for other assistance activities. DCA funds are legally obligated when an authorized USAID official and a guaranteed party sign a loan or bond 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

Effective Date: 06/01/2006

249.4.1 External Mandatory References

Effective date: 06/01/2006

a. Federal Credit Reform Act of 1990 (FCRA)

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

c. Foreign Policy Reform Act, 1997, H.R. 1486.

d. Pub. L. 103-62, Government Performance and Results Act (GPRA)

e. OMB Circular A-129

249.4.2 Internal Mandatory References

Effective date: 06/01/2006

a. ADS 202, Achieving

b. ADS 204, Environmental Procedures

c. ADS 623, Financial Management of Credit Programs

d. USAID Development Credit Risk Assessment Handbook

249.5 ADDITIONAL HELP

Effective date: 06/01/2006

a. **ADS 101, Agency Programs and Functions**

b. **ADS 103, Delegations of Authority**

c. **ADS 204, Environmental Procedures**

d. **ADS 602, Forward Funding of Program Funds**

e. **ADS 603, Forward Funding**

f. **ADS 631, Accrued Expenditures**

g. **22 CFR 216**

Address questions to EGAT/DC and GC/EGAT. See the Development Credit Web site for additional helpful information **(http://www.usaid.gov – Keyword "Development Credit")**

249.6 DEFINITIONS

Effective date: 06/01/2006

additional project
An economically justified activity is also an activity that is "additional." A project is "additional" if it would not go forward on comparable terms without the support of a DCA guarantee. (Chapter 249)

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)

economically justified activity
A development project that aims to correct a financial market imperfection in a host country, region, or targeted sector. (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)

market imperfection
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 guarantor/lender of last resort to bridge these market imperfections. (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)

parastatal entities
Government-funded or-owned organizations that are often otherwise independent of government and whose debt obligations are generally not backed by the full faith and credit of the sovereign government. (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
Non-sovereign governmental entities such as states, municipalities, local governments and parastatal entities. (Chapter 249)

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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