Development Credit Authority (DCA), United States Agency for International Development

Development Assistance Committee member: United States

Duration: Ongoing since 1999

Budget: USD 187.7 million

Geographic focus: Open

Sectoral focus: Open

Offered: Credit guarantees

Description: The United States Agency for International Development's (USAID) Development Credit Authority (DCA) uses partial credit guarantees to mobilise local financing for entrepreneurs. The DCA fills financing gaps for eight out of ten entrepreneurs who cannot access loans.

Objectives: The DCA shares the risk of lending in order to mobilise local private capital and demonstrate the long-term commercial viability of lending in underserved markets and sectors.

Partners: The DCA partners with co-guarantors, lenders, borrowers and occasionally trustees. Through the DCA, USAID has co-guaranteed in partnership with the African Development Bank and Swedish International Development Cooperation Agency and accepts gift funds from governments and the private sector. USAID partners with financial institutions that use DCA loan guarantees to provide finance to underserved markets and sectors. Entrepreneurs use DCA-backed guaranteed loans to implement projects that align with USAID's strategic interests – agriculture, education, energy, the environment, health, infrastructure, small businesses, trade and water. Sometimes guarantees are used to support bond issuances for larger infrastructure projects. USAID has also directly co-ordinated with other bilateral donors, multilateral organisations and development finance institutions on specific projects and indirectly co-ordinated through information sharing.

How it works: Guarantees are independently reviewed by the Credit Review Board, an internal committee that is responsible for approving transactions that usually provide 50% coverage of realised loss of principal. These guarantees are usually paired with technical assistance that strengthens entrepreneurs' abilities to repay loans or supports financial institutions' lending capacities in new sectors. USAID offers four types of guarantees: loan guarantees, portable guarantees (which involve an unidentified lender and are provided rarely), bond guarantees (through a trustee who accesses more favourable rates and terms) and loan portfolio guarantees (for unidentified borrowers in a specific sector). Eighty percent of the DCA's portfolio is comprised of loan portfolio guarantees because of their ability to increase lending to a specific sector that may extend beyond the duration of the guarantee programme. If lenders realise losses, they apply to USAID in writing after 90 days of non-payment with proof that efforts were made to collect payment.

Monitoring and evaluation: USAID uses an online reporting system to track loan data. In addition, the DCA works with local USAID missions and technical assistance providers to conduct regular outreach, process claims, review loan files, visit borrowers, amend guarantees and take other necessary actions throughout the course of a partnership. A monitoring plan is designed for each guarantee to outline key roles and responsibilities. USAID uses an external evaluation process when applicable and is currently developing an impact framework. In 2012, the DCA rewrote its evaluation methodology to include indicators that track impacts on borrowers, including indicators on gender and first-time borrowers. USAID evaluates the DCA's impacts at three levels – additionality (indicators for guaranteed loans in comparison to a financial institution's portfolio), behavioural change (specifically a financial institution's behaviour toward borrowers without guarantees) and market demonstration (the extent to which other institutions have been spurred to increase lending). Open datasets are available on the DCA's website.

Results: From 1999 to 2015, the DCA provided guarantees to 480 financial partners or 215 000 borrowers in 74 countries, thereby unlocking over USD 4.2 billion in private capital. The cumulative default rate is 2.36%. Guarantees have been more likely to succeed when paired with technical assistance and have market-catalysing impacts when multi-bank guarantees are issued.

Insights: The DCA makes use of online platforms and open datasets to effectively communicate its activities and results to a wide range of stakeholders. The use of a consistent monitoring plan and indicators for all guarantees also facilitates portfolio reporting.

SOURCE:

USAID (27 July 2016), "Development Credit Authority", www.usaid.gov/what-we-do/economic-growth-and-trade/development-credit-authority-putting-local-wealth-work.