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# ADS Chapter 249

## Development Credit Authority (DCA)

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## ADS 249 – Development Credit Authority (DCA)

### 249.1 OVERVIEW

Effective Date: 08/21/2012

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. Through its DCA authority, USAID works with investors, financial institutions, and development organizations to design and deliver investment alternatives that enable financing for U.S. Government priorities. DCA guarantees require true private sector risk-sharing. As a matter of policy, it is preferable to have 50 percent risk sharing in order to ensure sound due diligence by the private lender. The investment or risk of USAID in any one development activity may not exceed 80 percent with respect to any one tranche of the total outstanding investment or risk.

Because it is subject to independent risk and cost assessments and true risk-sharing with private sector partners, 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: 08/21/2012

- a. **Missions and Bureaus/Independent Offices (B/IOs)** execute DCA obligating agreements in a manner consistent with their authorities to obligate other forms of assistance ([ADS 101, Agency Programs and Functions](#) and [ADS 103.3.8.3.b](#) (and as incorporated by reference into delegations to the field)). While USAID/Washington (USAID/W) has certain independent responsibilities to ensure the financial soundness of DCA activities, Missions and B/IOs have sole responsibility for the developmental soundness of their DCA activities.
- b. **Mission and B/IO Controllers** manage certain DCA financial events and report 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, Education, and Environment (E3) Office of Development Credit (E3/DC)**:
  1. Establishes and maintains technical and financial expertise, including DCA credit expertise, and makes such expertise available to Missions under its Mission support role;

*\*An asterisk and yellow highlight indicate that the adjacent material is new for this chapter or substantively revised.*

2. Performs DCA risk assessments and portfolio management; and
  3. With support from USAID/FA-State/F, BRM, and M/CFO, monitors and manages DCA Accounts, as necessary, to manage the claims process and other disbursements necessary to service DCA activities.
- d. The **Assistant Administrator of E3 (AA/E3) and the Office Director of E3/DC** represent DCA before Congress, the Office of Management and Budget (OMB), and the **Government** Accountability Office (GAO), as required.
- e. The **Bureau for Management, Office of the Chief Financial Officer (M/CFO)** provides financial management services for all DCA-funded activities.
- f. The **Chief Financial Officer (CFO)** approves the final determination of the credit subsidy cost of each proposed DCA activity and ensures 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 CRB.
- g. The **Credit Review Board (CRB)** is an internal advisory committee composed of representatives from **the Office of the Chief Financial Officer (M/CFO), the regional Bureaus, the Office of the General Counsel (GC), the Office of Budget and Resource Management (BRM), and the Office of U.S. Foreign Assistance Resources (USAID/FA-State/F)**. The CRB recommends to the CFO the final estimated subsidy cost of each proposed activity. As defined in its Charter, the CRB also recommends policies and procedures designed to ensure the financial soundness of all USAID credit programs, including DCA. **Therefore, the representatives on the CRB should have a strong background in, and understanding of, financial analysis and/or experience in operations or oversight of credit programs.**
- h. The **Office of the General Counsel (GC)**, acting through GC/E3 and Regional Legal Advisors, drafts and negotiates loan and loan guarantee agreements and other credit assistance agreements, and advises on compliance with the law, regulations, and other USAID guidance governing DCA.
- i. **The Office of U.S. Foreign Assistance Resources (USAID/FA-State/F) is responsible for overall budget and planning oversight for DCA. In addition, USAID/FA-State/F designates a budget officer for credit programs, including DCA, whose responsibilities include the following:**
1. Serving as a point of contact with OMB on credit budget issues, **including OMB policy** and the President's Budget Submission, the **apportionment process**, and specific credit subsidy issues;

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2. Providing USAID/FA-State/F clearance on re-programming memoranda for all funds in the DCA appropriation accounts; and
3. Monitoring the timely completion of DCA funds transfers, in coordination with Missions and B/IOs, regional Bureaus, M/CFO, BRM, and USAID/FA-State/F.

**j.** The **Office of Budget and Resource Management (BRM)** is responsible for USAID budget and planning oversight for DCA and serving as a point of contact with OMB on credit budget issues, including OMB policy, the President's Budget Submission, and specific credit subsidy issues. BRM designates a budget officer for DCA, whose responsibilities include the following:

1. Ensuring that Agency priorities are considered as part of the formulation of the DCA budget; and
2. Providing BRM clearance on reprogramming memoranda for all funds in the DCA appropriation accounts.

**k.** **Private sector lenders and beneficiaries** implement activities in accordance with the terms and conditions of the applicable direct loan or loan guarantee agreements and applicable USAID regulations. They take the lead 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: 08/21/2012

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.

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As a matter of policy, DCA may not be used for loans or guarantees to sovereigns, or to entities for whose debt the sovereign is legally obligated to pay, as these could be subject to Paris Club activity, including debt rescheduling or restructuring. The Paris Club is an informal group of sovereign creditors, including the USG, who may voluntarily agree to reschedule or restructure 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 of Agency resources is a significant factor that makes DCA important. Leverage can occur when USAID partial guarantees induce private lenders and investors to finance activities that support the country-level goals described in the Foreign Assistance Standardized Program Structure. This leverage is possible because of Federal budget scoring rules under the [Federal Credit Reform Act of 1990 \(FCRA\) \(P.L. 101-508, 2 USC 661, as amended\)](#), which requires Federal agencies to obligate the net present value, or “subsidy”, cost of the loans and guarantees issued. Since the obligated cost of a DCA guarantee is usually far lower than the nominal value of the loans being guaranteed, a modest amount of DCA funding can stimulate a far greater level of capital availability in underserved markets.

Under DCA, Missions and B/IOs are able to transfer some of their program funds to the DCA program account, essentially effecting the issuance of full faith and credit USG guarantees or direct loans. The actual subsidy cost for a Mission or B/IO to issue a loan or guarantee, is determined by E3/DC using risk assessment and cost models approved by OMB. The subsidy cost must then be approved by the Agency’s Chief Financial Officer (CFO), upon recommendation of the Agency’s CRB. The USAID Administrator may also provide centrally managed funds to cover the subsidy costs of certain strategic DCA transactions; such as, regional guarantees to support important Administration priorities. Central funds for such strategic projects will be managed by the Office of Development Credit to augment efforts by Missions and B/IOs, not to displace them.

USAID also has authority to use funds that it receives from third party partners as gifts in order to offset the subsidy cost of a guarantee or loan. Gifts may be made by private parties or official sources. Before accepting any gift for official purposes, the delegated official who accepts such gift (for example, the Mission Director) should ensure that all of the following criteria are met:

1. That the Agency can comply with conditions of the gift and still use the gift in furtherance of the FAA;
2. That the Agency can comply with conditions of the gift in a reasonable and cost efficient manner; and
3. That acceptance of the gift will not result in, or create the appearance of, a conflict of interest (See [ADS 628, Gifts and Donations and Dollar Trust Fund Management](#)).

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E3/DCA should be contacted as early as possible in anticipation of the receipt of third-party gifts for purposes of a DCA guarantee.

### **249.3.1 Guiding Principles**

Effective Date: 08/21/2012

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 and B/IOs to be used in addition to, or instead of, other forms of assistance.
- c. DCA loan guarantees are generally preferable to **DCA** direct loans.
- d. DCA is **primarily** a demand-driven initiative, with Missions and B/IOs having primary responsibility for designing, authorizing, **obligating funds for**, and implementing activities in support of, approved development objectives within Administration and Congressional priorities for assistance. Missions and B/IOs should request assistance from USAID/W technical specialists for any of these responsibilities, as needed.
- e. **E3/DC provides support for Missions and B/IOs in both designing and delivering private financing solutions to address development problems. E3/DC also spearheads the design of cross-cutting, strategic transactions, working in consultation with Missions.**
- f. DCA **project** responsibilities are **shared** between Missions and USAID/W. Missions and B/IOs will develop monitoring plans in conjunction with E3/DC for monitoring the financial and credit performance of DCA activities, as outlined in **[ADS 623, Financial Management of Credit Programs](#)**. **The funding** Missions and B/IOs are responsible for development soundness. The CRB and CFO are responsible for financial soundness.
- g. DCA may only be used where there are reasonable prospects of repayment. When the expected cumulative default **rate** of a DCA **loan or guarantee**, as calculated by E3/DC, exceeds a **specified percentage** of the principal amount to be loaned (such specified percentage to be **determined annually by the Chief Risk Officer and notified to the Credit**

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Review Board no later than November 30 of each year), a special written justification to the CRB 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. The written justification may be submitted separately or as part of the project action package.

- h. The estimated default cost ("subsidy") of a DCA loan or guarantee may not exceed 30 percent of the principal amount of credit assistance to be received.
- i. DCA requires true private sector risk sharing. In most cases, it is preferable to have 50 percent risk sharing to ensure that there is equal capital at risk to motivate sound due diligence by the private lender. DCA may not cover more than 80 percent of the total outstanding investment or risk with respect to any one tranche for any particular development activity. In the event that a guarantee seeks to cover greater than 50 percent of the total risk, the Chief Risk Officer will provide a special written justification to the CRB as a part of the project action package.

The DCA true risk-sharing principle 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. Thus 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 material net losses if defaults occur.

A Material Adverse Change (MAC) clause should be included in all guarantee agreements.

Nonprofit entities may also be considered as potential DCA partners when the risk analysis demonstrates a record of prudent risk management.

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.

As a matter of general policy, the DCA guarantee should be structured to cover the lender's risk on a *pari passu* basis. In some instances, however, 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

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instead, provides a credit enhancement that allows for claims to be made under the guarantee prior to a senior lender's incurring losses (e.g., a first-loss guarantee or a guarantee of subordinate debt). In such cases, a DCA guarantee is permissible if the ultimate exposure to USAID is no more than 50 percent with respect to any one tranche of the total outstanding investment or risk 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 may be submitted as part of the project action package and must include an analysis of why there is a reasonable assurance of repayment.

For example, a guarantee in which USAID does not bear losses on a *pari passu* basis may be appropriate for bond transactions or structured finance deals in which equity investors or subordinated debt investors will incur losses prior to USAID. The presence of subordinate capital in such a project helps ensure that there remains true private-sector risk sharing. Since such investors will incur losses prior to USAID's incurring losses, they have a strong incentive to exercise prudent risk management that mitigates the risk of loss to USAID. In such a structure, USAID may consider a first-loss guarantee covering a percentage of the second loss tranche of the overall financing. Such a structure may also be considered where 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.

- j. 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 be otherwise made without the DCA support (see **Section 249.3.1u**), taking into consideration whether such financing is available for the term needed and at a reasonable cost. Guarantees of principal-only are generally preferable to guarantees of principal and interest if the same goals can be achieved.
- k. Loans made with DCA assistance should reflect market rates. Any question regarding market rates must be resolved through joint consultation with the Mission or B/IO and E3/DC.
- l. 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 cost 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 and the development

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rationale of the project, as well as estimates of risk-adjusted fee levels for such loans or guarantees. E3/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. **Generally, fees should cover at least 20 percent of the subsidy for the transaction, but the fee structure will be reviewed annually to determine whether that threshold is appropriate given current-year subsidy rate determinants and other considerations.** The sponsoring Mission or B/IO will then determine the final fee level to be charged.

- m. The Agency strongly discourages currency mismatches. Currencies earned by DCA activities must match the borrowers' liabilities unless adequate currency exchange structures are in place. **The rationale for allowing a currency mismatch in a DCA project should be addressed in the project action package.**
- n. 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.
- o. DCA is used primarily in USAID presence countries in support of **foreign assistance goals** 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.
- p. DCA is used to address market imperfections.
- q. **As with** programs offered by EX-IM Bank, **the** Overseas Private Investment Corporation (OPIC), and the Trade and Development Agency (TDA), DCA provides an option for engaging private entities to advance the strategic interests of the U.S. Government.
- r. 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 \(d\)\(8\)](#))
- s. Sovereign governments are not eligible as DCA borrowers or lenders. Sub-sovereign (i.e., non-sovereign governmental entities, such as states, municipalities, and local governments) and parastatal entities (i.e.,

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government-funded or-owned organizations that are otherwise independent) are eligible to receive assistance under DCA if they are eligible to receive development assistance under the FAA and they are deemed to have sufficient private sector control and/or profit motive.

- t. 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.
- u. The sponsoring Mission or B/IO 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.
- v. The effective term of a DCA guarantee or direct loan must not exceed 20 years without CFO approval. The Activity Description paragraph within the CRB action package must explicitly state in the funding area that the agreement term is greater than 20 years and be flagged to ensure explicit approval by the CFO.

Furthermore, the latest date by which loans may be placed under a guarantee is six months before the cancellation date of the Treasury appropriation account in which the subsidy funds have been obligated. This is necessary because the disbursement of new loans by the lender and their placement under guarantee coverage by USAID require that USAID disburse a proportionate amount of the subsidy obligation from the program account to the financing account, and by law, Treasury will not allow any disbursements from an appropriation account after it has been canceled. Once disbursed into the financing account, the funds are available to pay guarantee claims until the expiration of the guarantee

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because the financing account is a no-year account, whose funds are available until expended.

- w. 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 CRB for its consideration.

### **249.3.2 Financial Documentation Responsibilities**

Effective Date: 08/21/2012

Financial documentation is any material or data that impacts on or results in financial activity. It includes any source material causing or resulting in a financial transaction. Contracting Officer's Representatives (CORs), Loan/Guarantee Officers, and Agreement Officer's Representatives (AORs) are responsible for retaining financial documentation.

**[Note: Because of the USAID reorganization and the implementation of the Foreign Assistance Standardized Program Structure, the references to assistance objectives in this document can also be interpreted to mean program areas.]**

The Loan/Guarantee Officers, CORs, and AORs use the following basic financial documentation retention rules:

- If an action will result in a financial transaction, it must be documented.
- Source documentation must be readily available for audit by either the Office of Inspector General (OIG) or another responsible audit entity.

Financial documents should be retained for seven years. However, because retention times may vary by document type, please refer to [ADS 502, The USAID Records Management Program](#). The financial Records Disposition Schedules are located in the Mandatory Reference section of ADS 502 under Records Disposition Schedule, USAID/W, Chapter 15, Fiscal Management Records, and Records Disposition Schedule, USAID, Chapter 35, Financial Management Records. See also the [National Archives and Records Administration \(NARA\) General Records Schedules \(GRS\) 6 and 7, Accountable Officers' Account Records and Expenditure Accounting Records](#), respectively.

### **249.3.3 Selected Statutory Provisions**

Effective Date: 08/21/2012

The following are selected statutory requirements of the DCA Authority first enacted by Section 591 of the FY 1998 Appropriations Act (Foreign Operations, Export Financing,

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**And Related Programs Appropriations Act, 1998 (P.L. 105-118).** (In some cases, Agency policy is more stringent than the statute.)

- a. The policy provisions in Part I of the 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), **shall** 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, **as** USAID determines. (See [H.R. 1486 section \(d\)\(3\)](#))
- d. The principal amount of DCA direct loans or **amounts** guaranteed in any fiscal year, with respect to any single borrower, may not exceed \$100,000,000. (See [H.R. 1486 section \(d\)\(3\)](#)).

In FY 2012, this limit was increased to \$300,000,000 for loans made or guaranteed with respect to any single country only (Department of State, Foreign Operations, and Related Programs Appropriations Act, 2012 (Div. I, P.L.112-74)).

- 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 Government is pledged for the full payment and performance of such obligations **to the extent of the guarantee and is supported, per FCRA, by permanent indefinite authority (PIA) for the re-estimates and/or shortfalls in financing funds available to pay claims.** (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 **DCA** development

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activity may not legally exceed 80 percent of the total outstanding investment or risk. (See [H.R. 1486 section \(d\)\(5\)](#))

#### **249.3.4 Planning**

Effective Date: 08/21/2012

The planning process that guides DCA guarantee development begins with a Mission or B/IO deciding how DCA fits within its strategy. As needed, E3/DC offers guidance in making this decision. Thereafter, Missions and B/IOs, with support from E3/DC, design and structure specific DCA guarantees in preparation for presenting those guarantees to the CRB for **recommendation for** approval by the CFO.

##### **249.3.4.1 Strategic Planning**

Effective Date: 06/01/2006

USAID policy and guidance related to strategic planning apply to DCA as they do to other tools used to achieve Agency, Mission and B/IO objectives. Missions and B/IOs should consider incorporating DCA into their strategies at the planning stage and should include DCA in their 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 Development 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 B/IO's obligation of an amount equal to the subsidy cost; such expenditures may occur after the relevant Development Objective end date.

##### **249.3.4.2 Pre-Obligation Requirements**

Effective Date: 08/21/2012

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](#)). However, loan portfolio guarantees made by USAID without the right to approve individual loans qualify for the categorical exclusion set forth in 22 CFR 216.2(c)(2)(x) and consequently are not subject to the general procedures contained in 22 CFR 216.3 unless an individual loan guarantee is determined by GC to be subject to the control of USAID and "have a significant effect on the environment" as described in 22 CFR 216.2(c)(3).

##### **249.3.4.3 Activity Development and Design**

Effective Date: 08/21/2012

Generally, the activity development and design processes are applicable to DCA-funded activities. In addition, there are procedures that are DCA- specific, as follows:

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- a. **Economic Justification and Risk Assessment.** E3/DC, with assistance from Missions and B/IOs, will analyze the economic justification of proposed activities for use in the USAID/W controlled risk assessment of each proposed activity. The Credit Review Board (CRB): (i) reviews and makes recommendations for all proposed activities for the credit risk assessment and the resulting credit subsidy estimate; and (ii) reviews these analyses to determine whether the activity meets the policy guidelines in this chapter and whether any deviations are required.
- b. Congress appropriates Budget Authority (BA) in annual appropriations acts. BA generally is allocated among competing Missions or B/IOs as part of the normal budget process. These are known as 'source funds'. Missions or B/IOs plan DCA activities, and upon approval by the CRB, assist USAID/FA-State/F, M/CFO/CAR, and the Bureaus in the transfer of those source funds to the DCA destination accounts. Funds, once transferred to a DCA account, are maintained on a Mission or B/IO basis by 'source of funds' to ensure (1) source fund authorities and legislative restrictions are complied with (2) where the B/IO plans to use/reuse the funds they transferred into the account are reserved for the individual Mission or B/IO per [ADS 621.3.14](#). Once transferred to a DCA account, source funds adopt the period of availability of the DCA account.
- c. **Procedures.** A Mission contemplating a DCA activity should consult with E3/DC or the regional Field Investment Officers, 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 interested Mission or B/IO contacting either E3/DC or the regional Field Investment Officers to discuss how a guarantee may support an identified development objective. Frequently, a field-based market assessment is performed by E3/DC to assist the sponsoring office in designing the guarantee and selecting an appropriate financial partner. Upon the decision to move forward, the sponsoring office, in coordination with E3/DC, writes an Action Package, prepares the Initial Environmental Examination, and drafts the Congressional Notification. The sponsoring office also engages the Regional Legal Advisor to draft the guarantee agreement.
- (2) The end result of the detailed design process is an action package from the sponsoring Mission or B/IO through the CRB to the CFO. The action package includes an activity description of the DCA project and the anticipated development results, indicates internal Mission or B/IO approval of the activity, and requests the CFO to determine and/or confirm the following:

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- (a) The final subsidy cost to be charged to the Mission or B/IO, and
  - (b) That there is a reasonable assurance of repayment of obligations covered under the guarantee.
- (3) The CRB reviews the Action Package 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 **249.3.1r** and **249.3.1u**); and
  - (b) **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.
- (4) The CFO makes a decision. **The Mission or B/IO is now free to finalize the draft of the loan or loan guarantee agreement (in conjunction with GC attorneys). The execution of the loan or guarantee agreement constitutes the obligation of funds for the DCA project subsidy cost. As a result, the DCA agreement must not be executed (signed) until the obligating office has received the necessary distribution of funds in the agency accounting system. If the activity is approved by the CFO, but the Mission does not yet have a distribution of DCA budget authority, the Mission should initiate the distribution, including any funds transfer, by requesting that its regional Bureau's program budget office coordinate with USAID/FA-State/F and M/CFO for the necessary approval of funds.**

**249.3.5****Loan Guarantees**

Effective Date: 08/21/2012

The following are the policies and required procedures for 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 **(or certain local currencies, per agreement with** the Office of Management and Budget (OMB)).

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- b. Beneficiaries of the USAID **guarantee are required** to pay a utilization fee, based on the guaranteed portion of outstanding principal of the guaranteed loan. The authorizing official **should** set the utilization fee at not less than the minimum appropriate fee, as recommended by E3/DC. In addition, the authorizing official **should** set a one-time activity origination fee (also known as “commitment fee”) of not less than the minimum appropriate fee, as recommended by E3/DC. (See **249.3.14**)

The authorizing official should work with E3/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 E3/DC, determines that the origination fee should be waived, the utilization fee must be adjusted accordingly, as determined by E3/DC, and such fee structure must be justified in the action package.

- c. A DCA guarantee may be a guarantee of payment or of collection depending on the needs of the activity. **A guarantee of payment requires default claims to be paid when a default occurs, without further action by the lender. A guarantee of collection usually requires some action on the part of the lender to collect the amount due.** USAID prefers guarantees of collection because this maximizes the guaranteed party’s incentive to properly manage the collection process.
- d. Missions and B/IOs 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 certain terms and conditions of loans to be guaranteed. **USAID, however, generally does not dictate the interest rate to be charged by lenders, in order to avoid creating a market distortion.**
- f. DCA guarantee agreements generally can be categorized in four ways:
- (1) **Loan portfolio guarantees (LPGs)**, in which USAID agrees to share in the risk of a broadly defined category of loans, with a view toward inducing **financial institutions** to extend credit to an underserved sector.

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- (2) **Loan guarantees (LGs)**, in which USAID uses DCA for specific credit enhancement purposes and the borrower, lender, and uses of the loan proceeds are **identified in the guarantee agreement**.
- (3) **Portable guarantees (PGs)**, in which USAID uses DCA for specific credit enhancement purposes and the purpose and borrower are **approved**, but the lender is not yet **identified**. In these cases, the minimum credit rating (Standard & Poor's, Moody's, etc.) **of the lender** is defined and the risk calculation and subsidy cost are based on the assumption that the eventual lender will have a rating equal to or above **such defined** minimum.
- (4) **Bond guarantees (BGs)**, in which USAID shares the risk of loss with investors on a bond issuance. This mechanism is used for municipal or private sector financing.

Note that BGs generally require more time than an LPG or an LG. Prior to undertaking a BG, Missions may consider issues such as whether there are experienced underwriters and/or bond agents/trustees, need for local counsel and development of financial markets.

- g. Sponsoring Missions and B/IOs draft and sign obligating agreements in cooperation with, and subject to, approval by Agency lawyers. **Regional legal advisors and/or GC/E3** should draft guarantee agreements using the most recent precedent agreements provided by GC/E3, and Agency lawyers should contact GC/E3 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 (see also [ADS 103](#)). Sponsoring Missions and B/IOs must forward copies of guarantee agreements, when executed, to E3/DC.

#### **249.3.6**

#### **Direct Loans**

Effective Date: 08/21/2012

DCA has authority to provide direct loans, and primarily will do so in cases where a credit guarantee would be inadequate in facilitating access to credit. As a general rule, DCA loan guarantees are generally preferable to direct loans. USAID may, however, consider making a direct loan, in either U.S. Dollars or local currency, in those cases where a direct loan is justified and USAID would be a "lender of last resort." The guiding principles for designing and structuring direct loans should be the same as for guarantees. All DCA direct loan action packages submitted to the CRB should include a justification for DCA direct loan assistance. Note that USAID's ability to provide direct loans is subject to clearance on the appropriate risk model and subsidy calculator by OMB.

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**249.3.7 Strategic Transactions**

Effective Date: 08/21/2012

Using the DCA authority, E3/DC may originate, develop, obligate, and manage strategic transactions in order to develop capital markets solutions to help address development problems and market imperfections. Transactions should be endorsed by affected Missions and B/IOs and may also include partnerships with external entities such as other development agencies, donor groups, foundations, and private sector organizations, etc. These transactions may span multiple countries, and should align with USAID and USG foreign assistance priorities. Strategic transactions may be funded by central Agency funds or from a Bureau or Mission's budget, or a combination thereof. The management plan for each strategic transaction will be determined on a project-by-project basis and may include the transfer of the activity to a Mission, or management by E3/DC.

**249.3.8 Other Services**

Effective Date: 08/21/2012

DCA may support sponsoring Missions and B/IOs by providing enhanced support to help leverage private sector resources and develop private financing solutions to address market imperfections and development problems. Such enhanced support may include the sharing of financial expertise, consultations and assistance with mission strategies, project development, extensive ("deep-dive") market assessments and TA services.

USAID receives annual budget authority for administrative costs which include salaries, overhead, and other support costs (i.e., paying agent and technical support).

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

Effective Date: 08/21/2012

USAID's annual budget guidance to the field instructs Missions and B/IOs 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 and B/IOs 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 or B/IO must make available appropriated funds for transfer to the DCA program account before it can execute the guarantee agreement or other obligating instrument. The regional Bureau's program office manages the responsibility for requesting the transfer of funds.

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Generally, the transfer of funds from the source account into the DCA account follows these steps:

- (1) For Missions **or appropriate unit in Washington**, the **B/IO** makes an appropriate reduction from the source funds allowed to the Mission **or appropriate unit in Washington**, thus regaining USAID/W control of the necessary funds. USAID/FA-State/F reduces the **B/IO** allotment by an appropriate amount.
- (2) The B/IO drafts a transfer letter to OMB notifying it of USAID's intention to transfer funds **from the source budget authority account** to the DCA Program Account. This letter is **cleared through the DCA budget officer in USAID/FA-State/F** and forwarded to M/CFO/CAR/FCGL. M/CFO/CAR/FCGL 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: (1) to reduce the budget authority in the originating account, and (2) 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) USAID/FA-State/F allots the budget authority **in the DCA program account** to the B/IO.
- (5) The **B/IO** sends an e-mail regarding the allowance of the funds to the Mission **or appropriate unit in Washington** (the e-mail will provide a funding citation to enable the Mission Controller to enter the funding in the Mission accounting system). For **Washington or Mission, the obligation is recorded in the Agency's accounting system.**

The funds are legally obligated when an authorized USAID official and a guaranteed party sign a loan guarantee agreement, loan agreement (in the case of a direct loan), or a binding guarantee commitment letter.

**In the case of a guarantee (or direct loan) that is funded either fully or partially by a gift, the process would be as follows:**

- 1. Third party makes payment to USAID, to be deposited in the USAID 72X8824 Gifts & Donations account ([ADS 628](#));**

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2. After apportionment by OMB, funds are transferred from the USAID 72X8824 Gifts & Donations account to the DCA program account; and
3. Once in the DCA program account, the funds are made available for the subsidy cost of the DCA project.

### **249.3.10 DCA Transfer and Apportionment Process**

Effective Date: 08/21/2012

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 **discounted net** present 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 **enact** “transfer authority” (as in Fiscal Years **1998** through 2012), 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 and B/IOs maximum flexibility and maximum “ownership.” Direct appropriations may **also** be used to **develop strategic transactions such as those that** 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.

### **249.3.11 Procurement Source and Origin Rules**

Effective Date: 08/21/2012

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 **or employ** U.S. technology, firms, and equipment.

### **249.3.12 Monitoring, Evaluation, and Audit**

Effective Date: 08/21/2012

**E3 manages DCA program-wide evaluations.** Each Mission and B/IO evaluates its activities under DCA, and obtains audited financial statements of local intermediate financial institutions and/or borrowers, and other information, as needed by E3/DC, to calculate annual subsidy cost re-estimates. **E3/DC monitors the financial performance of DCA activities, including reviewing re-estimates and modifications of credit subsidies, as required.** DCA financial activities are an integral part of the audited Agency consolidated financial statements and related footnotes. See [ADS 590, Audit](#) and [ADS 592, Performance Audits](#) for more information.

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E3/DC is the focal point for investor or lender claims under DCA guarantees. In this role, E3/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 and B/IOs.

### **249.3.13 Financial Management**

Effective Date: 08/21/2012

E3/DC, M/CFO, Missions, and B/IOs manage financial activities of DCA guarantees, including apportionment, subsidy obligation, outlays and accruals, fee payments, claim payments and recoveries, account reconciliations, and financial statement/footnote reporting ([ADS 623](#)).

#### **249.3.13.1 DCA Financial Transactions**

Effective Date: 08/21/2012

In accordance with [ADS 623](#), Mission Controllers are required to track and report certain DCA financial transactions.

USAID Missions and B/IOs are responsible for ensuring timely repayment of USAID guarantee fees and other charges normally billed directly to guaranteed parties, for the DCA guarantees they manage. Depending on the agreement between USAID and the Guaranteed Party and/or borrower, 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 a 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.

M/CFO prepares DCA financial reports, as required, in addition to including DCA operations as an integral part of the audited Agency Consolidated Financial Statements and Footnotes; notifies Missions and B/IOs of expenditure amounts under a DCA guarantee agreement on a periodic and timely basis; and maintains account balance information for the DCA Accounts.

#### **249.3.13.2 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 Missions and B/IOs. Consequently, sponsoring Missions or B/IOs should note the existence of DCA subsidy obligations, where these obligations cause their pipelines to exceed the program standard.

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Missions and B/IOs post accruals of expenditures against DCA subsidy obligations where appropriate. For guidance on the treatment of accruals, Missions and B/IOs should refer to [ADS 631, Accrued Expenditures](#), or contact M/CFO.

#### **249.3.14 Authorization and Obligation**

Effective Date: 08/21/2012

Missions and B/IOs 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 signs a loan or bond guarantee agreement or a binding guarantee commitment letter.

#### **249.3.15 Loan/Guarantee Fee Types**

Effective Date: 08/21/2012

Loan/guarantee fee types are as follows:

- Loan/guarantee origination fee – equals a percentage of the authorized amount (also known as the commitment fee or the facility fee) (generally due 30 days after the signing of the agreement).
- Loan/guarantee utilization fee – equals a percentage of the guaranteed portion of the outstanding principal balance per annum (billed semi-annually).

#### **249.3.16 Claims and Claim Recoveries**

Effective Date: 08/21/2012

Once claims are received, Missions and B/IOs must forward claims to E3/DC. E3/DC determines the validity of claims. E3/DC can request Mission and B/IO assistance in collecting supplemental documentation from the guaranteed party if necessary. E3/DC can also request Mission and B/IO clearance prior to processing claims. M/CFO, together with E3/DC, then arranges for the disbursement and delivery of funds to the guaranteed party, as indicated in [ADS 623.3.2](#). On an annual basis, E3/DC issues letters to all financial institutions (FIs) that have received a claim payment requesting the FI to submit a Schedule of Net Recoveries to ensure all FIs are reporting and timely remitting post-claim recoveries, if any. E3/DC manages the DCA Financing Accounts with support from State/F and M/CFO, which includes annual budget estimates and making funds available to pay claims. E3/DC also performs annual subsidy re-estimates on the DCA Financing Accounts, as required under the Federal Credit Reform Act and regulations.

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**249.3.17 Deviations**  
Effective Date: 01/28/2002

The M/CFO, upon consultation with the CRB, may approve deviations from any of the policies and guidelines contained in this chapter.

**249.4 MANDATORY REFERENCES**

**249.4.1 External Mandatory References**  
Effective Date: 08/21/2012

- a. [Federal Credit Reform Act of 1990 \(FCRA\) \(P.L. 101-508, 2 USC 661, as amended\)](#)
- b. [Foreign Assistance Act of 1961, as amended \(FAA\), Part 1; Section 635\(a\)](#)
- c. [Foreign Policy Reform Act, 1997, H.R. 1486](#)
- d. [OMB Circular A-11, Preparation, Submission, and Execution of the Budget, Section 185, Federal Credit](#)
- e. [OMB Circular A-129, Policies for Federal Credit Programs and Non-Tax Receivables](#)
- f. [Pub. L. 103-62, Government Performance and Results Act \(GPRA\)](#)

**249.4.2 Internal Mandatory References**  
Effective Date: 08/21/2012

- a. [ADS 204, Environmental Procedures](#)
- b. [ADS 590, Audit](#)
- c. [ADS 592, Performance Audits](#)
- d. [ADS 623, Financial Management of Credit Programs](#)
- e. [ADS 628, Gifts and Donations and Dollar Trust Fund Management](#)
- f. USAID Development Credit Risk Assessment Handbook [Please contact Catherine Jones at [cjones@usaid.gov](mailto:cjones@usaid.gov) for a copy of this reference.]

**249.5 ADDITIONAL HELP**  
Effective Date: 08/21/2012

- a. [22 CFR 216](#)

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- b. [ADS 101, Agency Programs and Functions](#)
- c. [ADS 103, Delegations of Authority](#)
- d. [ADS 204, Environmental Procedures](#)
- e. [ADS 602, Forward Funding of Program Funds](#)
- f. [ADS 603, Forward Funding](#)
- g. [ADS 621, Obligations](#)
- h. [ADS 631, Accrued Expenditures](#)
- i. [Foreign Assistance Act of 1961, as amended \(FAA\), Section 630\(g\)](#)

Address questions to E3/DC and GC/E3. See the Development Credit Web site for additional helpful information (<http://www.usaid.gov/what-we-do/economic-growth-and-trade/development-credit-authority-putting-local-wealth-work>).

#### **249.6**      **DEFINITIONS** Effective Date: 08/21/2012

The terms and definitions listed below have been incorporated into the ADS Glossary. See the [ADS Glossary](#) for all ADS terms and definitions.

For official definitions related to the FCRA of 1990, see <http://www.fms.treas.gov/ussgl/creditreform/fcratoc.html>.

#### **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 (CRB)**

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. [OMB Circular A-129](#) (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)

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**financing account**

A non-budget account associated with each credit program account. The financing account holds fund balances, receives the subsidy cost payment from the credit program account, and includes all other cash flows to and from the government resulting from post-1991 direct loans or loan guarantees. (OMB Circular No. A-11) (Chapters 249, [623](#))

**guarantee of collection**

Usually requires some action on the part of the lender to collect the amount due. (Chapter 249)

**guarantee of payment**

Requires default claims to be paid when a default occurs, without further action by the lender. (Chapter 249)

**Interagency Country Risk Assessment System (ICRAS)**

The Interagency Country Risk Assessment System (ICRAS) is an SBU 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 non-sovereign transactions. (Chapter 249)

**loan/guarantee origination fee**

Equals a percentage of the authorized amount (also known as the commitment fee or the facility fee) (generally due 30 days after the signing of the agreement). (Chapter 249)

**loan/guarantee utilization fee**

Equals a percentage of the guaranteed portion of the outstanding principal balance per annum (billed semi-annually). (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)

**non-sovereign 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 non-sovereign entity. (Chapter 249)

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**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)

**present value (PV)**

The value of future cash flows discounted to the present at a certain interest rate (such as the reporting entity's cost of capital), assuming compound interest. (SFFAS 2) (Chapters 249, [623](#))

**program account**

The budget account into which an appropriation to cover the subsidy cost of a direct loan or loan guarantee program is made and from which such cost is disbursed to the financing account. Usually, a separate amount for administrative expenses is also appropriated to the program account. (OMB Circular No. A-11) (Chapters 249, [623](#))

**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**

Credit subsidy cost is defined in the Federal Credit Reform Act of 1990 as the estimated long-term cost to the government of a direct loan or loan guarantee or modification thereof, calculated on a net present value basis, excluding administrative costs and any incidental effects on governmental receipts or outlays. 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](#))

**sub-sovereign**

Non-sovereign governmental entities such as states, municipalities, local governments and parastatal entities. (Chapter 249)

**sub-sovereign risk**

Risk undertaken by sub-sovereign entities that is not backed by the full faith and credit of a sovereign nation. (Chapter 249)

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*Text highlighted in yellow indicates that the adjacent material is new or substantively revised.*