

THE IMPACT OF

# USAID's DEVELOPMENT Credit Authority

As a data-driven, results-oriented guarantor, DCA is committed to continual program evaluation. **11** total evaluations were completed, examining **12** financial institution partners representing

**\$100.3** MILLION and covering **14,621** BORROWERS. THE DEFAULT RATE for these selected guarantee facilities is **4.3%**

In **11** of **11** CASES

DCA enabled lending to new or riskier borrowers, but in only 9 out of 11 cases was the DCA successful in reaching the specific borrowers the USAID field offices intended to target.

## LESSONS LEARNED IN GUARANTEE DESIGN



### Technical Assistance:

Guarantees are more likely to succeed when

assistance providers help and partners develop loan products and improve risk management.



### Targeted Scope and Sufficient Size:

It is easier to pinpoint impact

when the guarantee targets a niche sector with a small number of players.



### Incentivizing Competition:

Multi-bank guarantees are more likely to have a

sustainable market-catalyzing impact than a single guarantee facility in a large market.



### Revolving Guarantees:

Evaluations indicated a

potential need for the introduction of revolving lines of credit, though these are not permitted under USG credit policy.

## INDEPENDENT EVALUATIONS

**HONDURAS** The Covelo Foundation grew increasingly confident in risking its own capital without a guarantee and facilitated the entrance of another microfinance organization into the agricultural sector.

**HAITI** SOGEBANK used DCA as a catalyst to lend to more borrowers in a greater variety of productive sectors.

Capital Bank used the guarantee as a reserve to cover a set of clients experiencing difficulty paying back loans, which was permitted post-earthquake.

**RUSSIA** Due to Center-Invest's risk aversion and challenging SME environments in Krasnodar and Volgograd, most of the guaranteed loans were disbursed to collateral-poor SMEs in the Rostov region.

**MOLDOVA** Two home-grown guarantee funds for borrowers lacking credit history and/or sufficient collateral were created in Moldova and were directly influenced by the DCA experience.

**GHANA** Experience with DCA prompted EcoBank to increase lending and extend long-term loans.

### LATIN AMERICA & EAST AFRICA

- Allowed Root Capital to expand to East Africa.
- Root Capital's Latin America portfolio tripled to \$10.9 million.

**ETHIOPIA** Bank of Abyssinia used the guarantee to decrease collateral requirements for all guaranteed borrowers and continued to lend to 20% of formerly USAID-guaranteed borrowers after the guarantee ended.

**RWANDA** Guarantee was entirely responsible for the bank's substantial increase in capital investment and working capital financing to coffee washing station investors.

**KENYA** KCB established a new SME unit and enabled KCB clients to raise their borrowing levels with the bank due to improved collateral margins.

**INDONESIA** Quick resumption and expansion of lending to MSEs following a devastating tsunami.

**PHILIPPINES** LGUGC improved access to credit for local governments and water districts where little or none previously existed.

## EVALUATION METHODOLOGY

In 2012, DCA rewrote its

to incorporate the impact of guarantees on borrowers—not on banks. In 2013, two evaluations were completed under the new framework.

In Kenya, employment increased **50%** on average for businesses with guaranteed loans.

In Haiti, **87%** of guaranteed borrowers were able to receive financing after the guarantee ended.

These findings are based on a sample of borrowers.

## EVALUATING IMPACT

**Market Demonstration**  
Did other, non-partner banks initiate or increase lending to the sectors/regions (and did the DCA serve as a model for this change)?

**3 OF 11** cases showed causality between guarantees and countrywide improved credit access for the target sector.

**Bank Behavior Change**  
Did the bank continue lending or lend to similar borrowers without guarantee?

**6 OF 12** banks changed lending behavior after the guarantee ended.

**Additionality**  
Compare indicators for loans under the guarantee with the rest of the bank's portfolio.

**9 OF 12** banks used the guarantee to start or increase lending to the targeted sector, region, or borrower.

**7 OF 11** cases showed a countrywide increase in lending, but the effect may have been from outside factors.

**5 OF 12** banks continued to show reliance on donor or government guarantees to continue lending in target sectors after USAID guarantee expired.

**3** banks' use of the guarantee did not fully achieve goals set out by USAID field offices' development objectives.