



USAID
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Financing Infrastructure The Role of Credit Enhancements and DCA

Infrastructure for
Rebuilding and
Developing Countries
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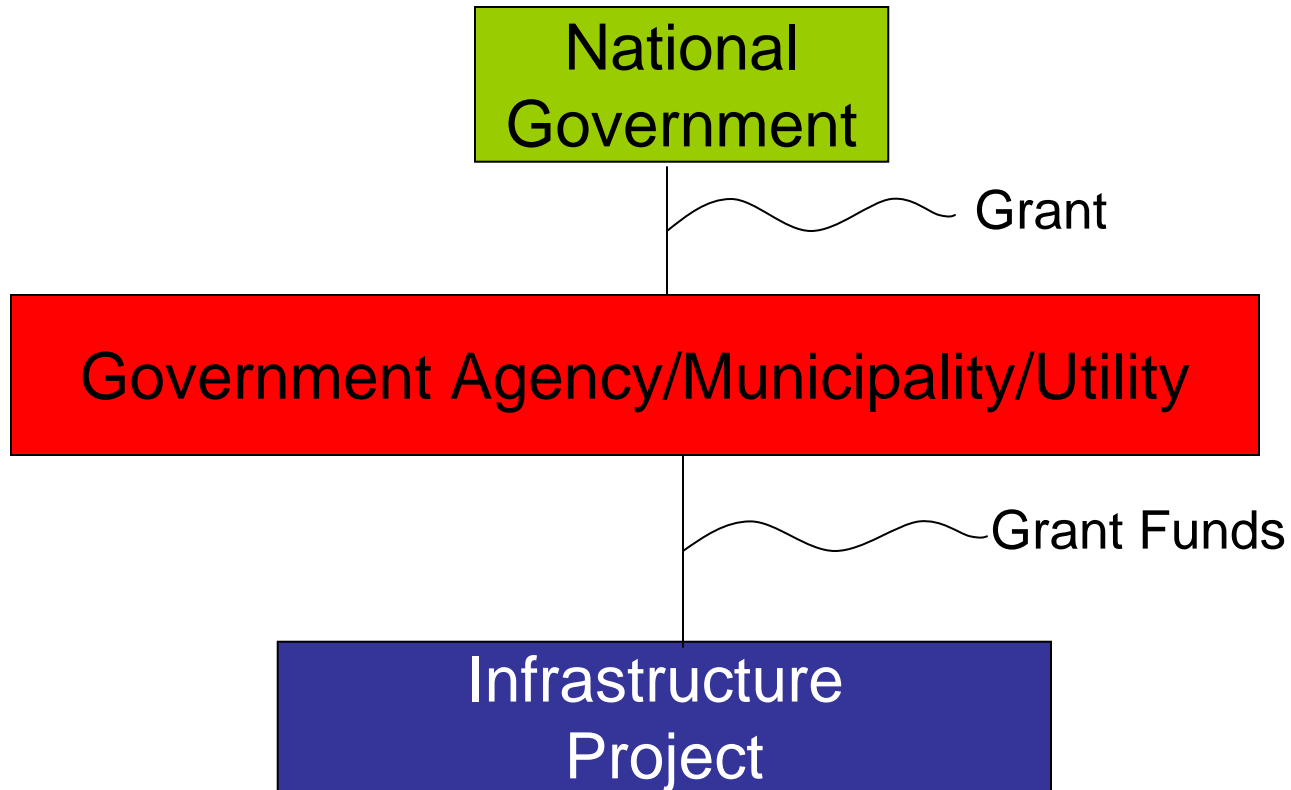
Infrastructure is financed in a variety of ways...

- **Traditional**
 - Grants
 - Loans
 - Bonds
- **Less Traditional**
 - Pooled Financing
 - Microfinance

Improving and expanding infrastructure requires efficiently using all of these methods and more

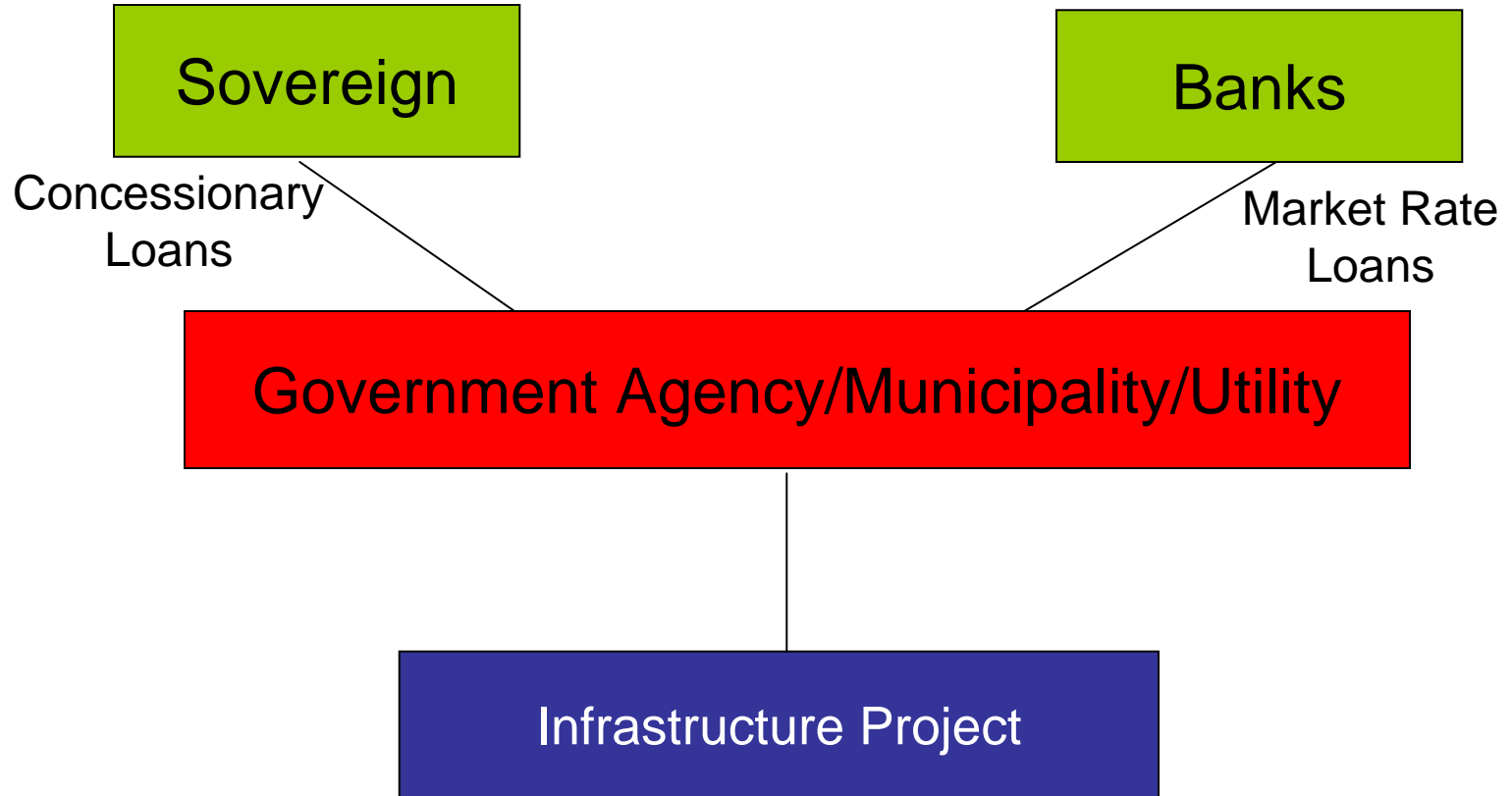


Grant Financing



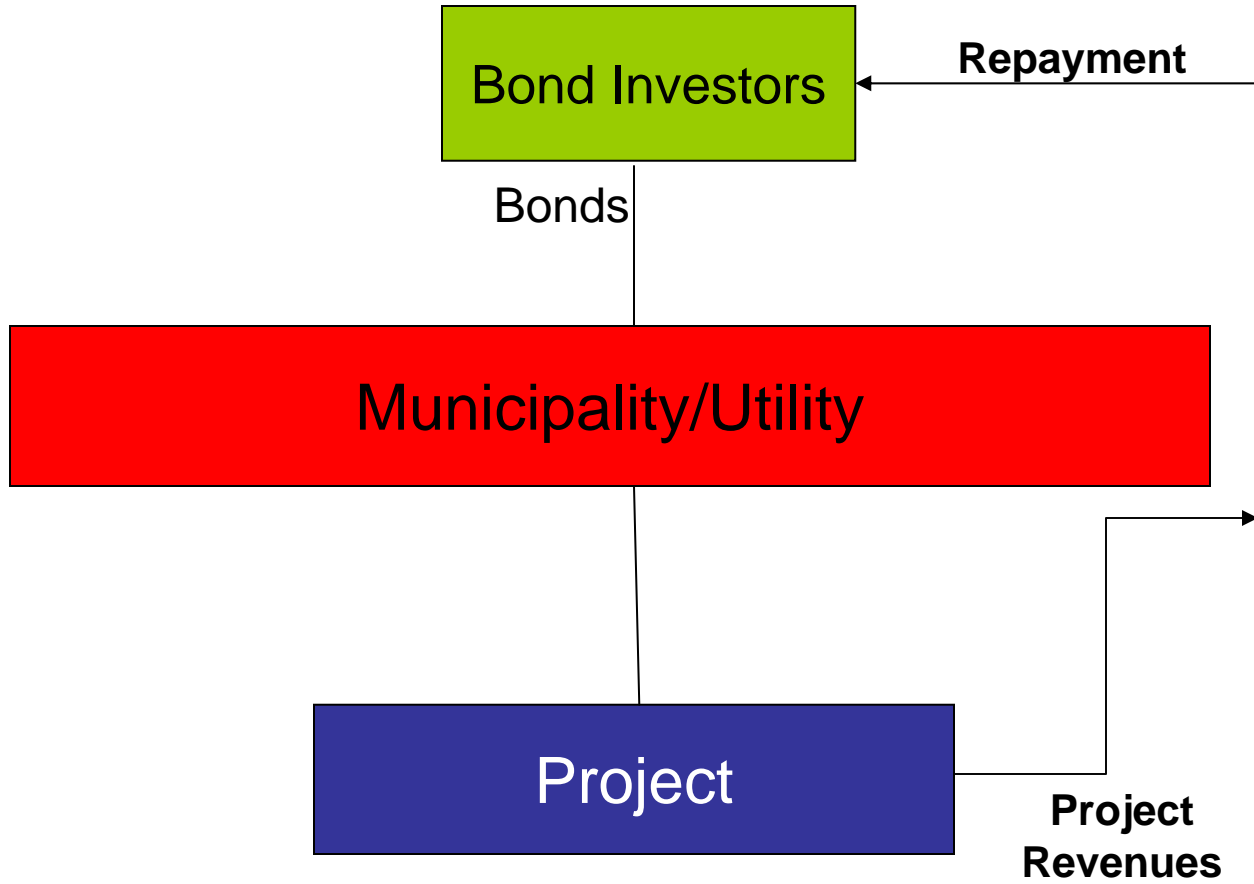


Loan Financing



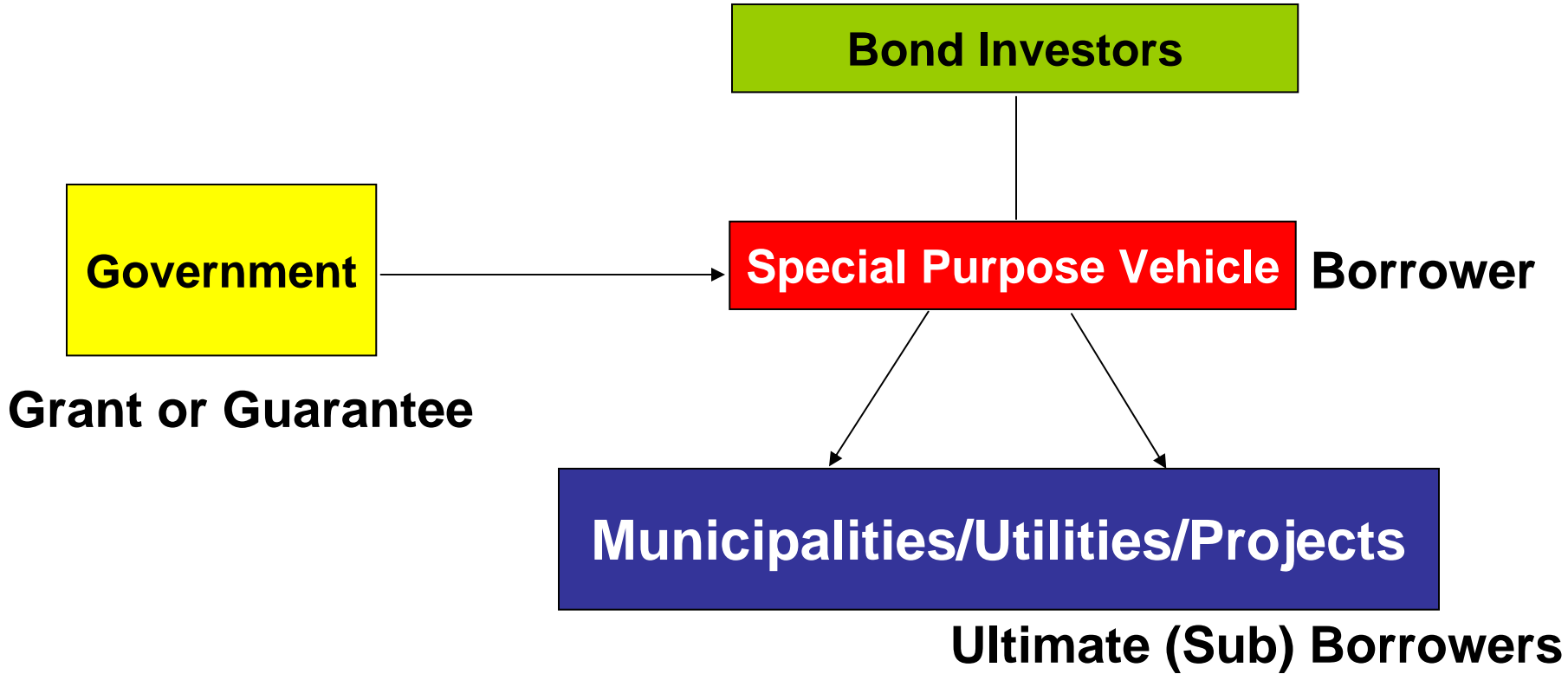


Bond Finance



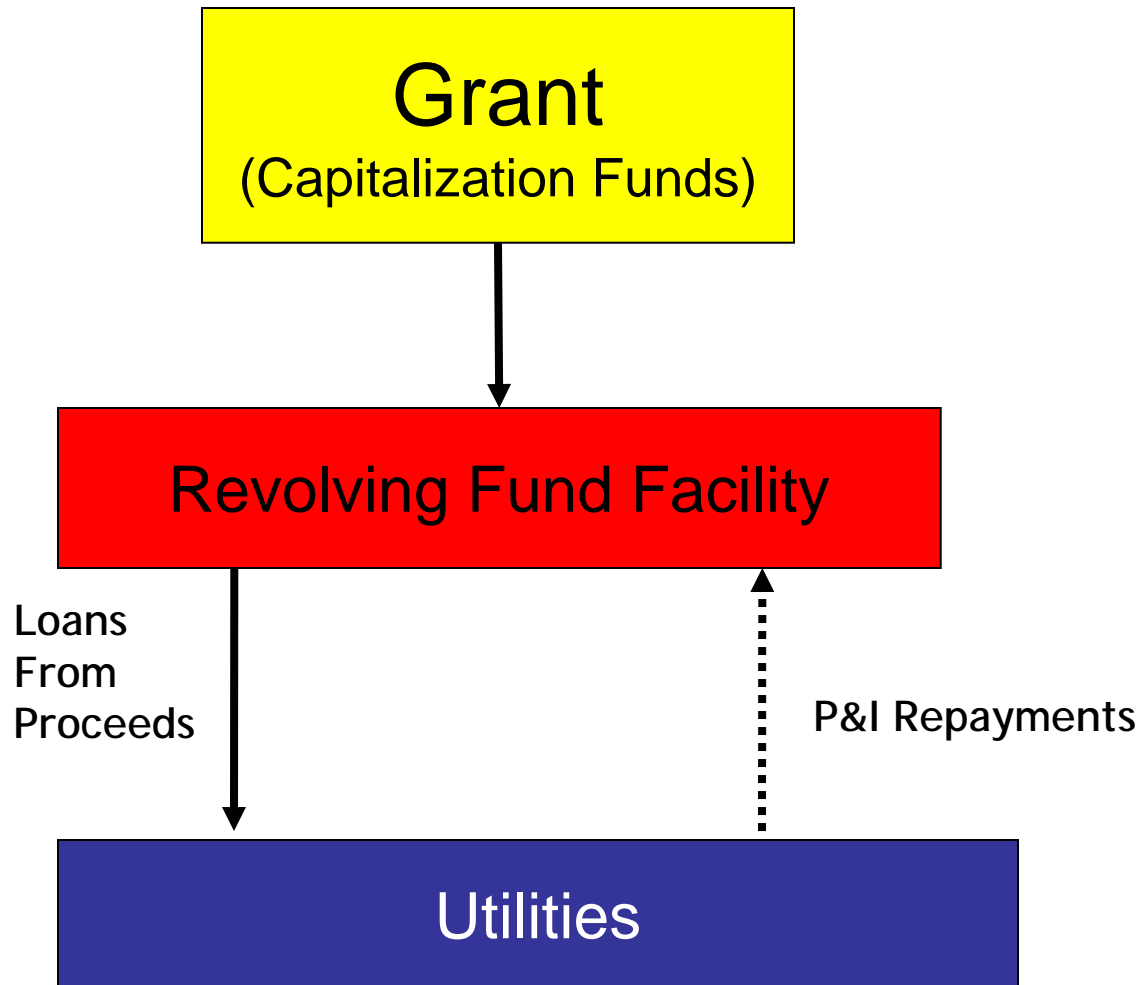


Pooled Finance



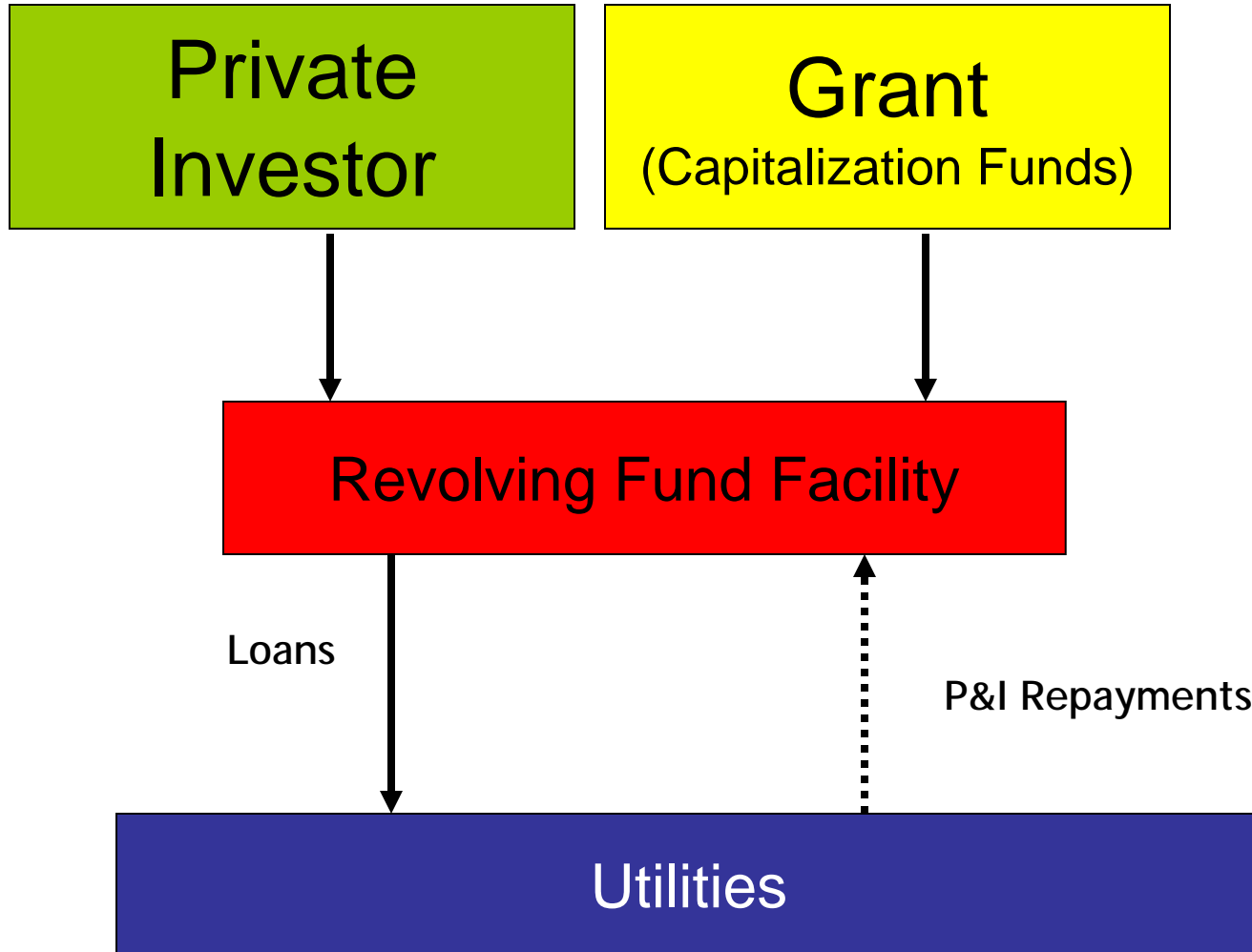


A revolving fund enables a grant to be used continuously





A revolving fund can use the grant to attract private investors





Lenders face a number of constraints

- **The need to match liabilities with assets**
- **Lack of financial transparency**
- **Unreliable legal and regulatory environment**
- **Construction risk**
- **Political intervention risk**
- **Few bankable projects**

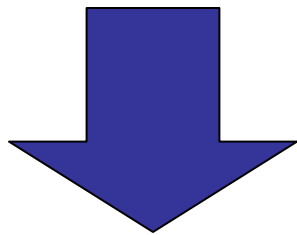


Types of Credit Enhancement

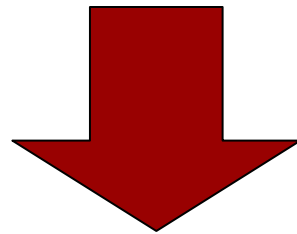
- **Structural**
 - Cash reserves
 - Cash flow requirements
 - Debt service coverage
 - Timing
 - Lockboxes
- **External**
 - Government intercept (re-direction) of transfers
 - Financial guarantee
 - Grant



Impact of Credit Enhancements



Risk Perception



Collateral Requirements



Longer-term Financing



USAID's Development Credit Authority (DCA) mobilizes private capital by

- **Sharing risk with the private sector**
- **Demonstrating to lenders the potential of certain players in particular markets**
- **Demonstrating to borrowers the potential to successfully secure needed capital**
- **Providing a sustainable source of capital to borrowers**

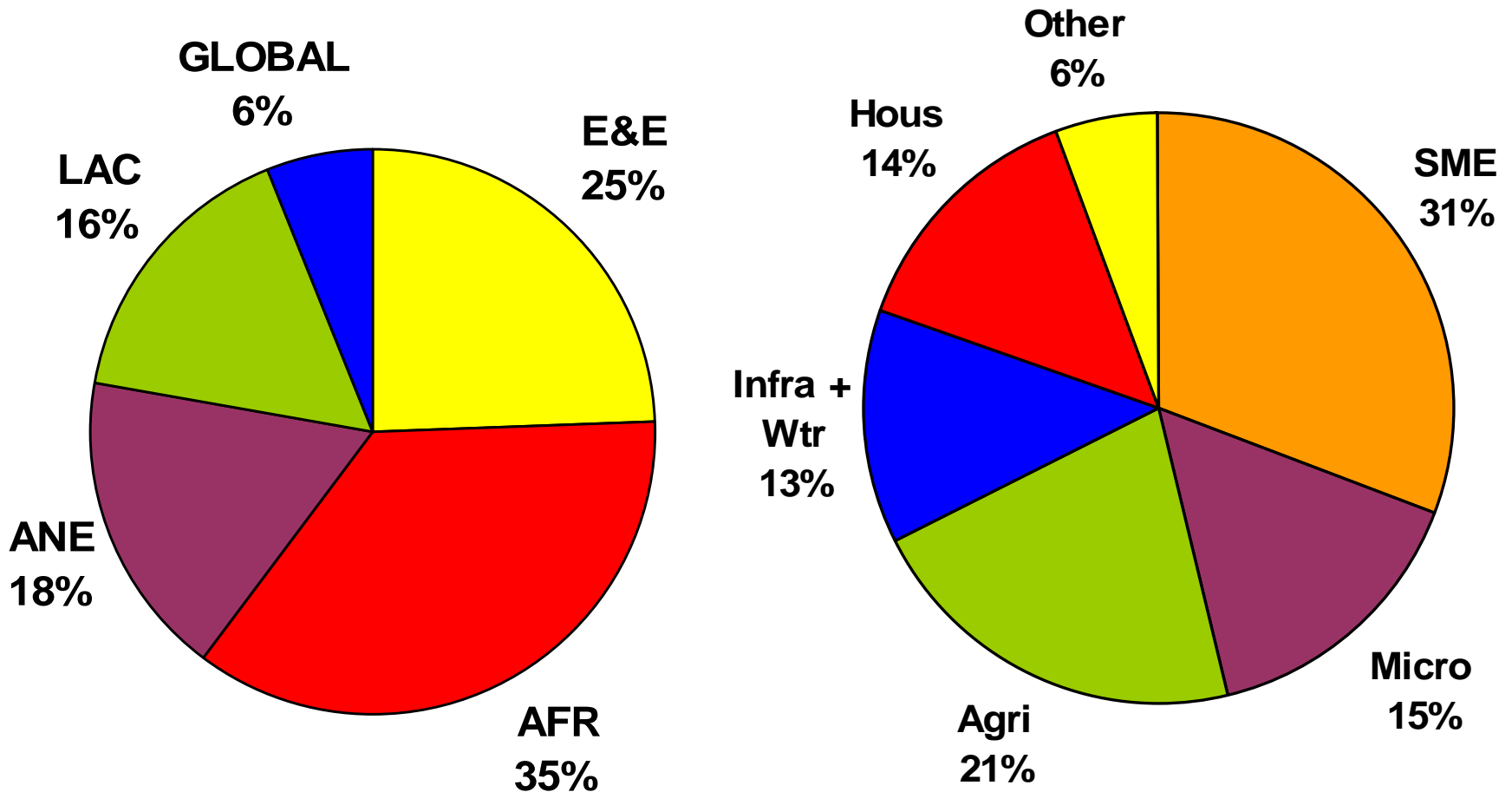


Development Credit Authority (DCA)

- **Additionality; Guarantor of Last Resort**
- **50% guarantees reduce Moral Hazard**
- **Demonstration Effect**
- **DCA most effective when linked to TA or Policy Reform**

DCA Portfolio – by Region and Sector

Founded in 1999, DCA has facilitated 185 guarantees in 54 countries, leveraging over \$1.3 billion in private sector resources

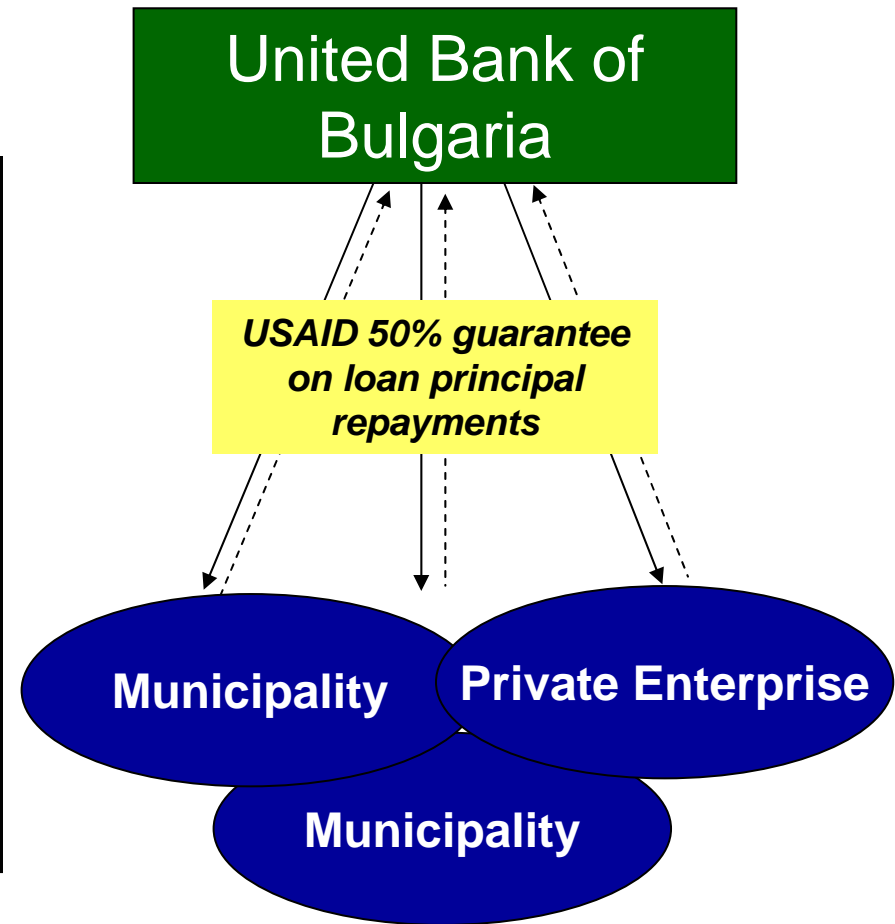




Loan Portfolio Guarantee

Bulgaria

Partner Bank	United Bank of Bulgaria
Total Loan Amount	\$10 million
Guaranteed Portion	\$5 million
No. of Years	11
Purpose	Facilitate long-term financing to municipalities and private enterprises to invest in energy efficient technologies





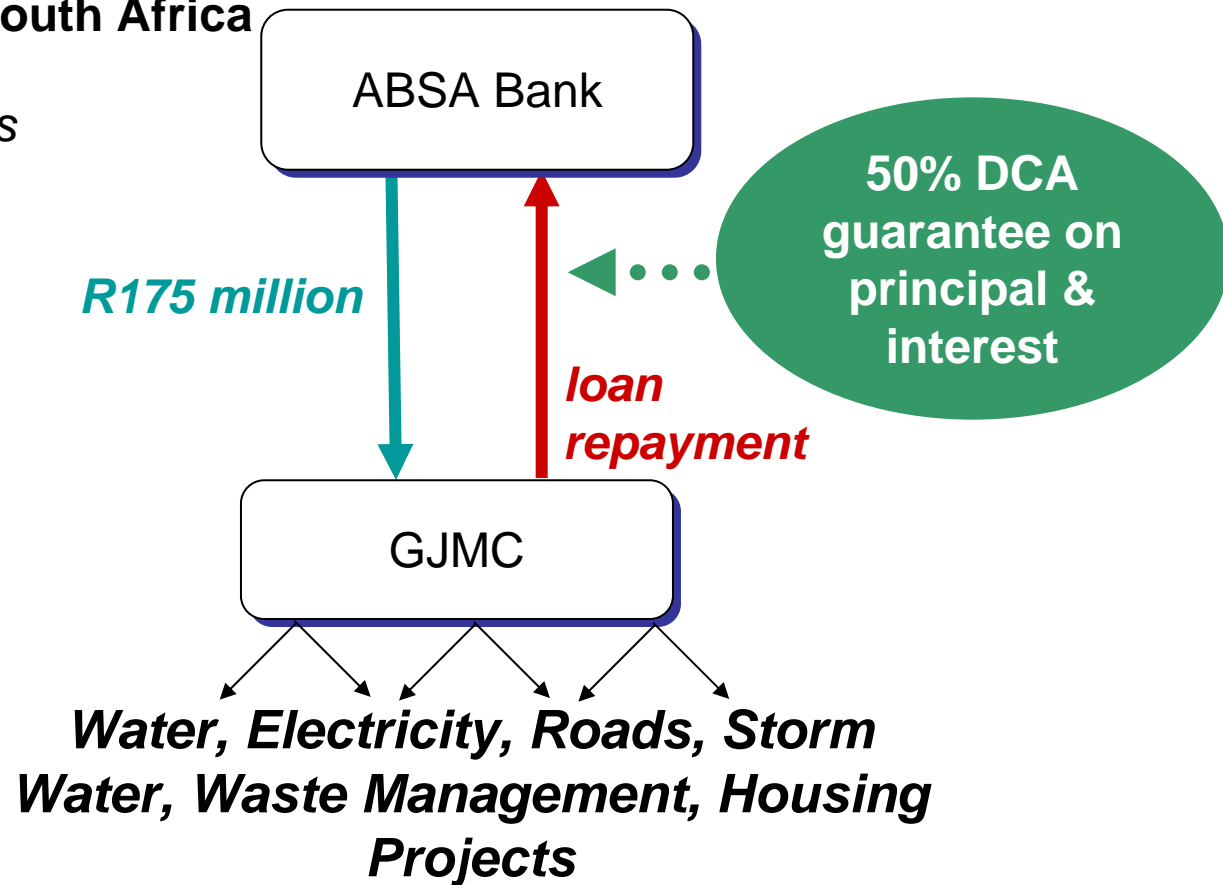
Portable Guarantee – South Africa

Step 1: USAID provides guarantee commitment to GJMC.

Step 2: GJMC solicits loan proposals and selects ABSA Bank.

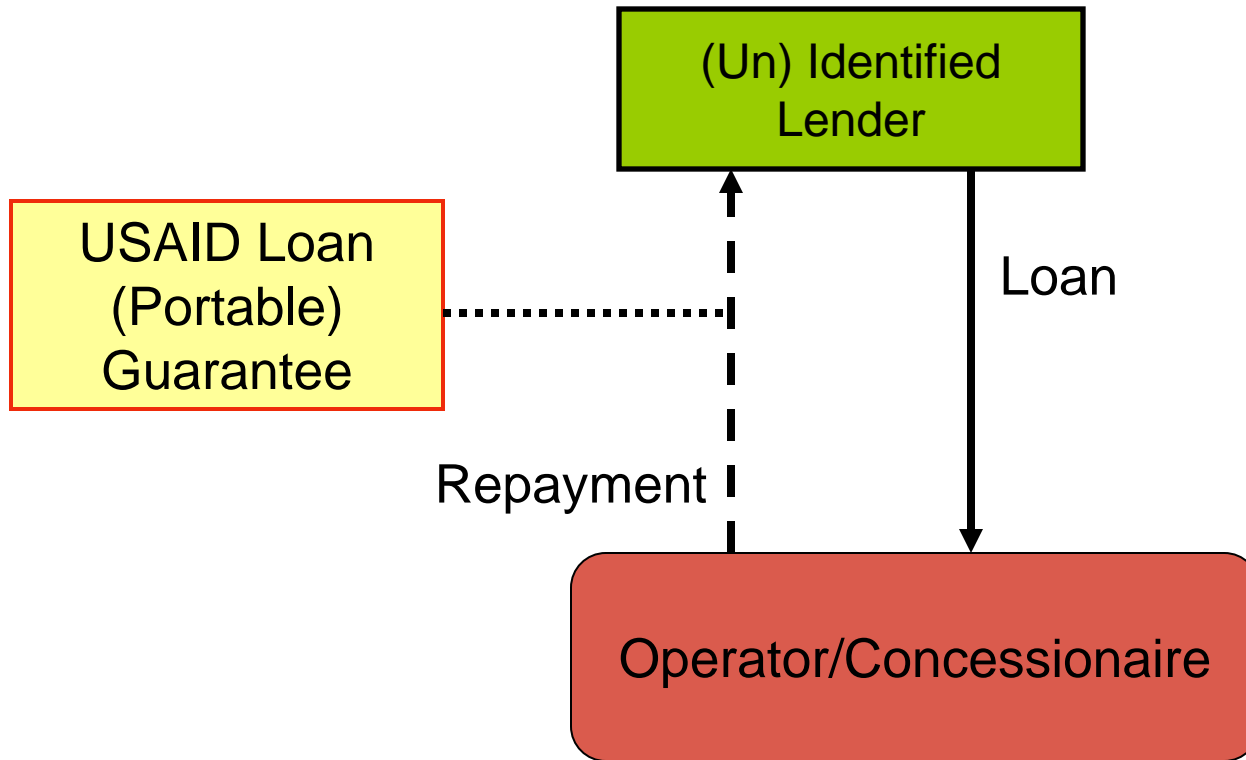
Step 3: USAID signs guarantee with ABSA Bank.

Step 4: GJMC uses loan to finance urban services.



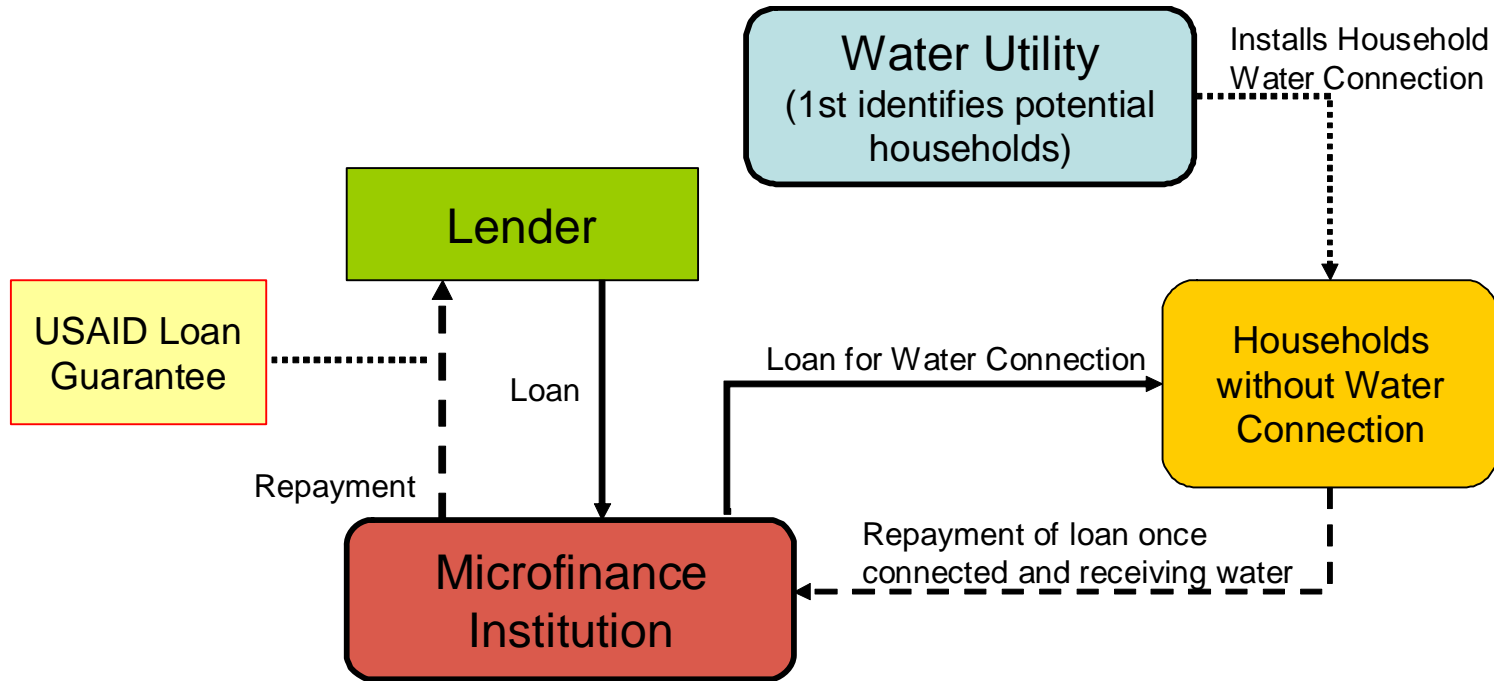


Concessionaire or Utility Operator





Microfinancing Household Water Connections





- **Financing is the final hurdle**
 - **Critical precursor: Reliable cash flow**
 - **Infrastructure projects must be efficiently managed and governed, with political support for cost-recovery tariffs**
- **Financing must allocate risks efficiently**

Grants and subsidized interest loans are not ends, but means to supporting sustainable access to financing