



USAID
FROM THE AMERICAN PEOPLE

Financing Infrastructure Optimizing Grants and Subsidized Funds to Attract Private Capital

Infrastructure
Workshop
Washington, DC
December 16, 2008

Anthony Vaganos
Office of Development Credit
USAID

avaganos@usaid.gov



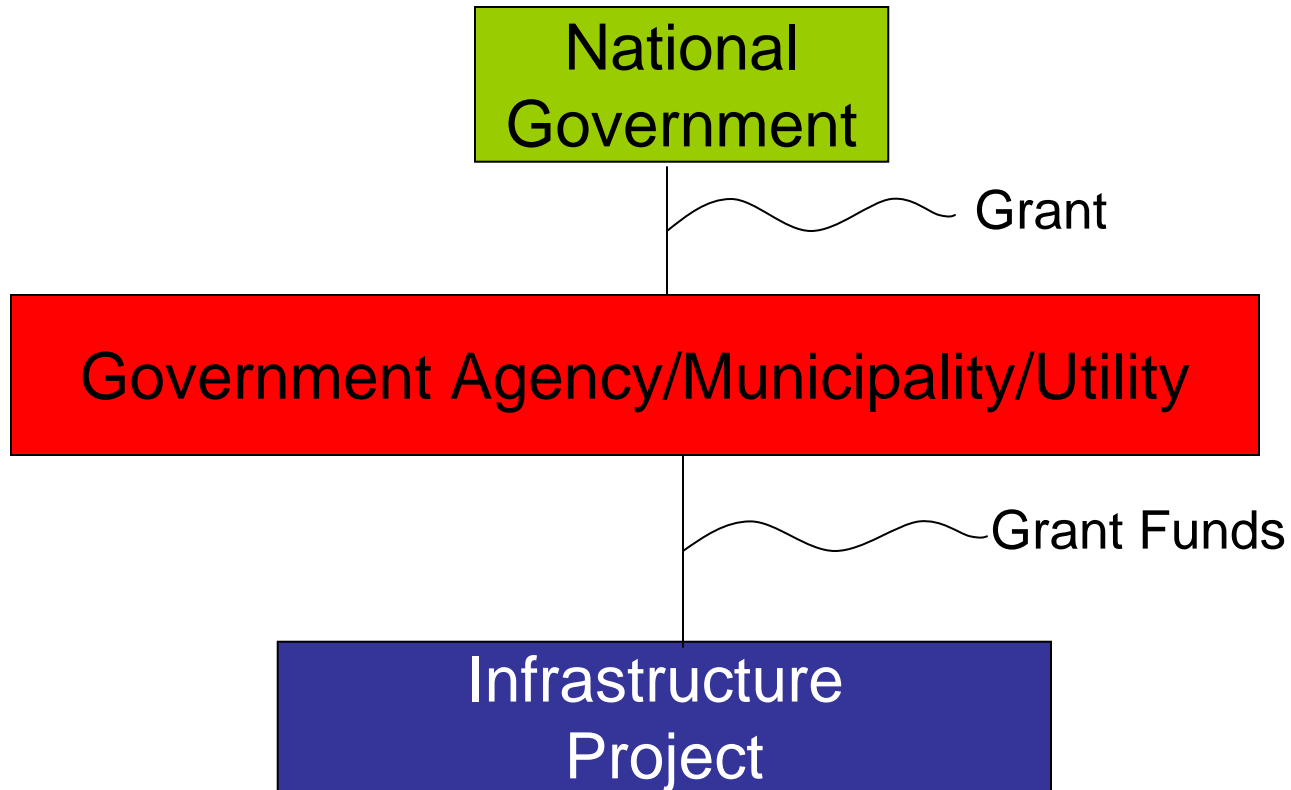
Infrastructure is financed in a variety of ways...

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

Improving and expanding infrastructure requires efficiently using all of these sources of finance

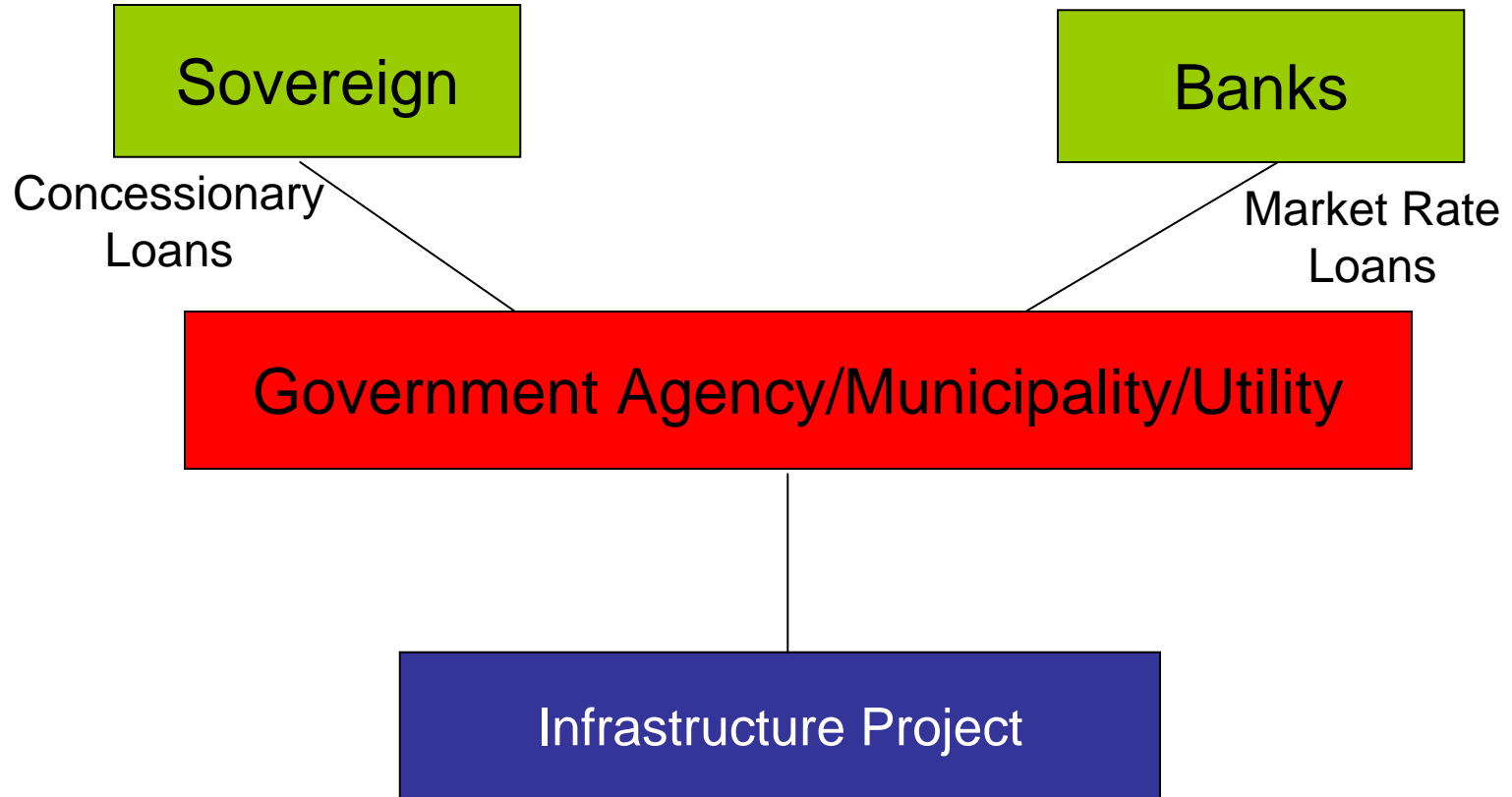


Grant Financing



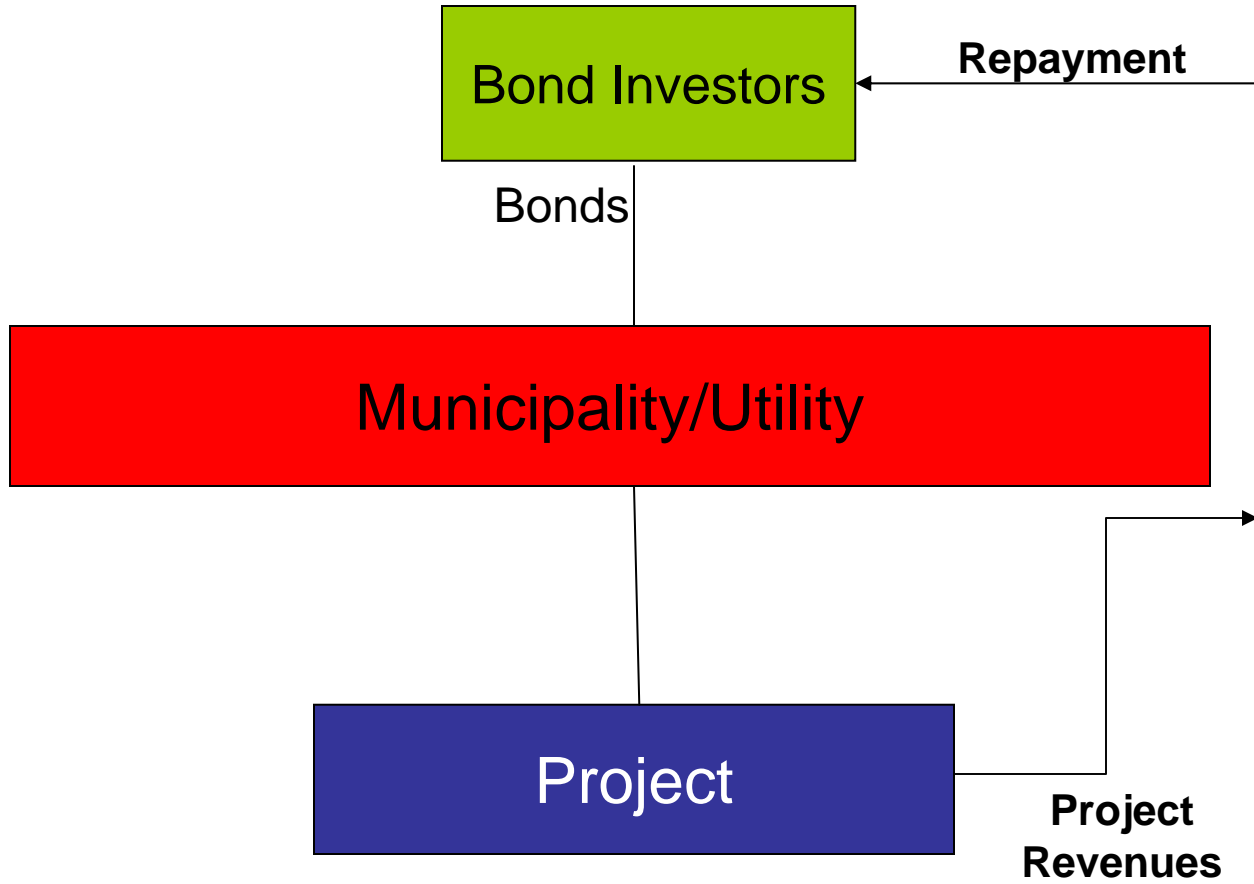


Loan Financing



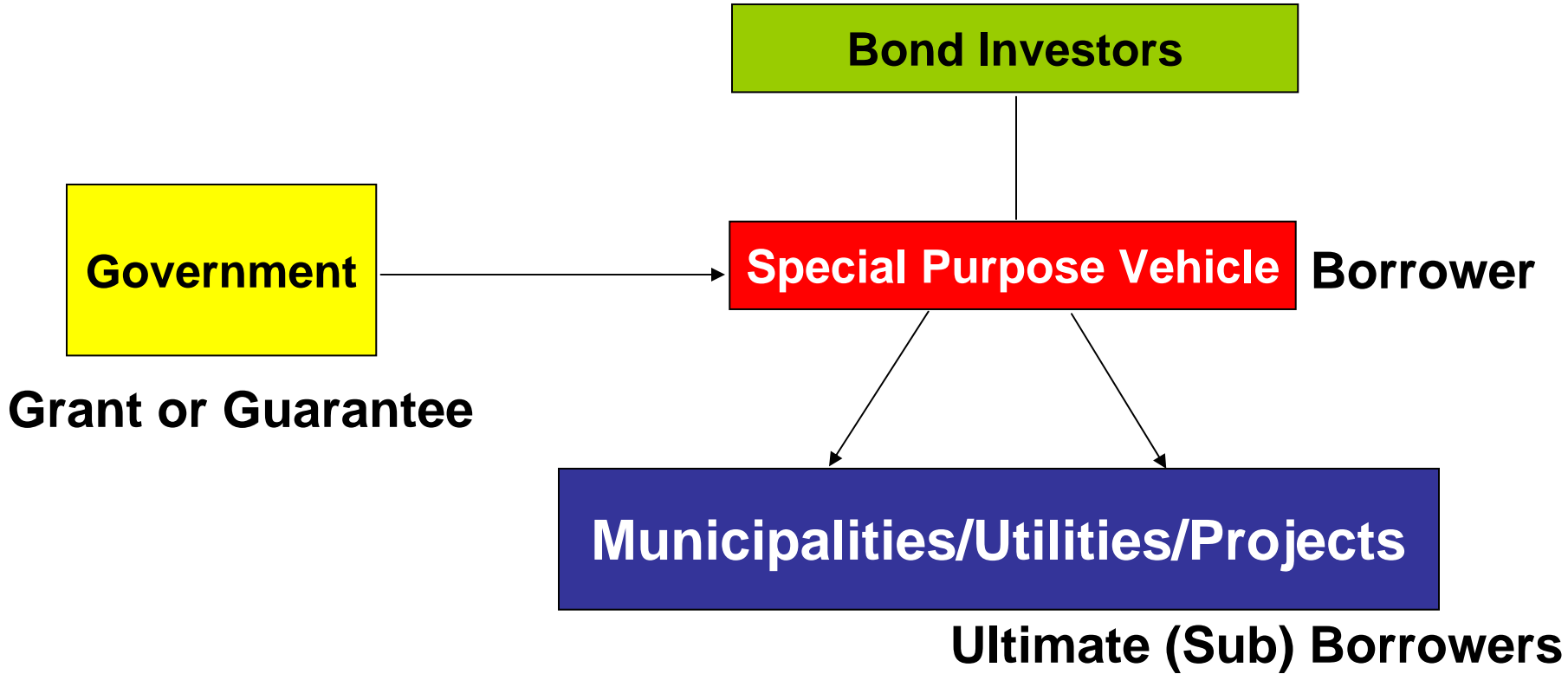


Bond Finance



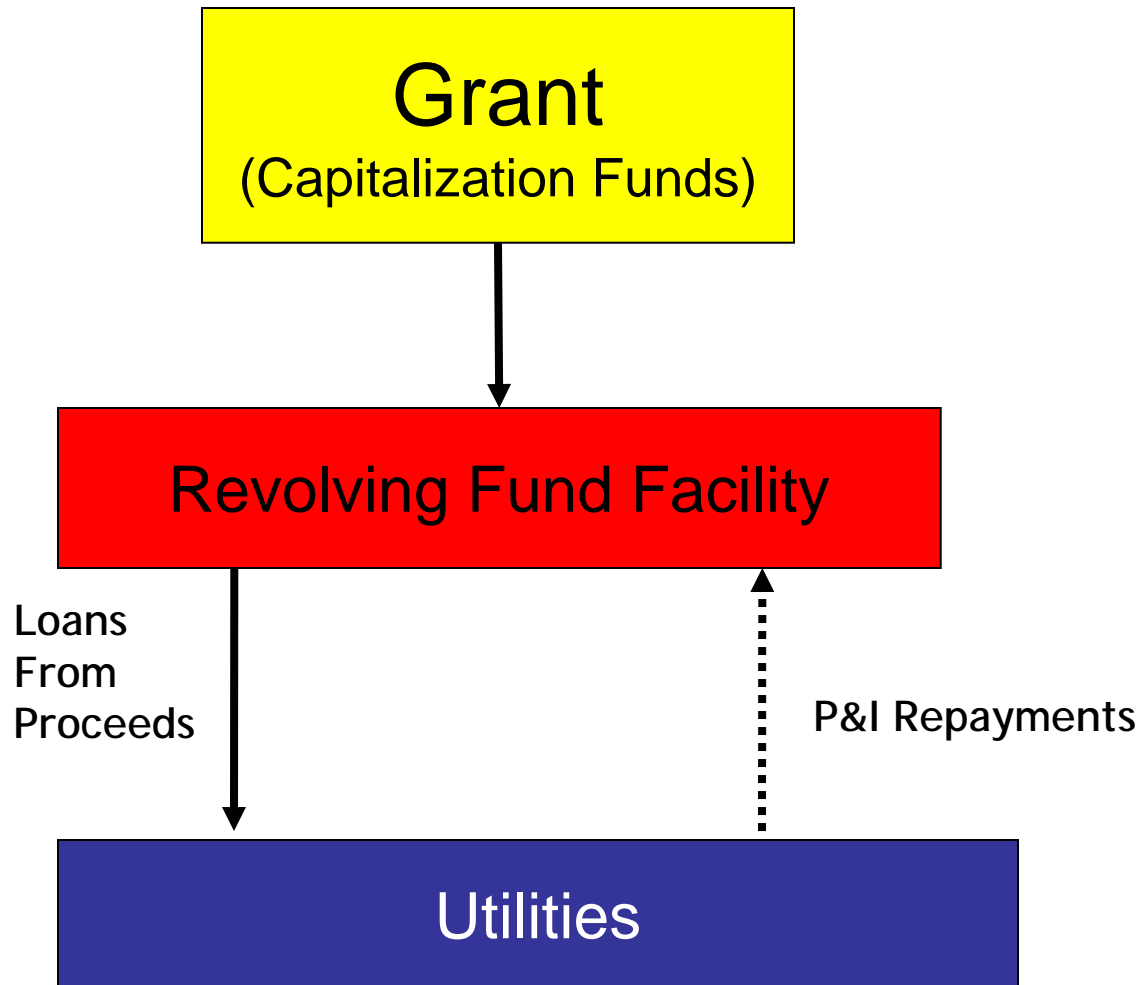


Pooled Finance



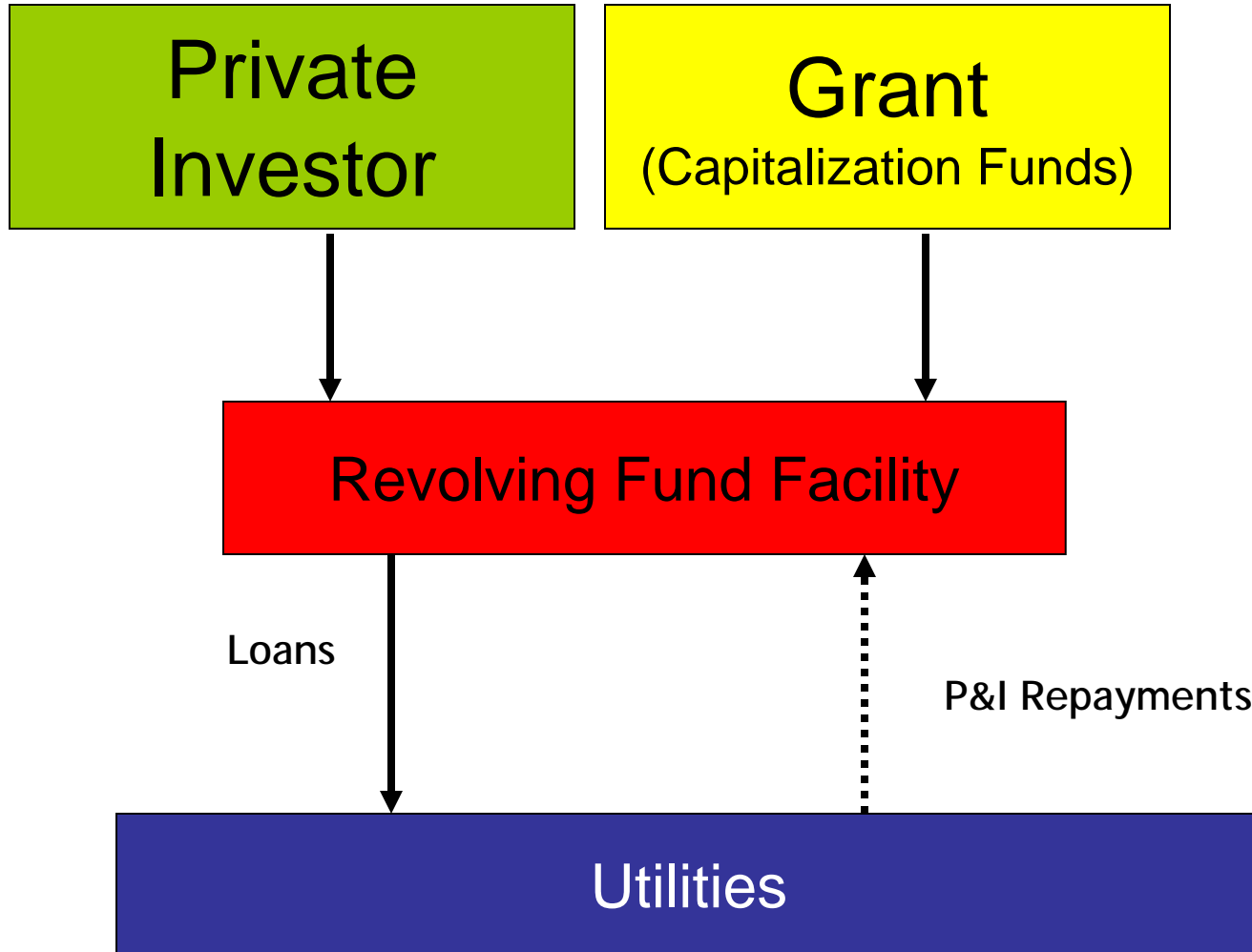


A revolving fund enables a grant to be used continuously





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**

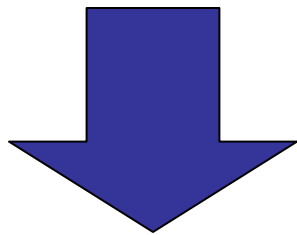


Types of Credit Enhancement

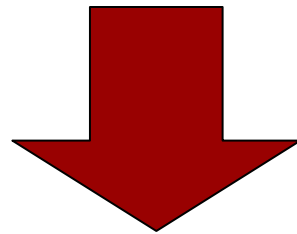
- **Structural**
 - Cash reserves
 - Cash flow requirements
 - Debt service coverage
 - Timing
 - Lockboxes
- **External**
 - Government intercept (re-direction) of transfers
 - Financial guarantee
 - Grant



Impact of Credit Enhancements



Risk Perception



Collateral Requirements



Longer-term Financing



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

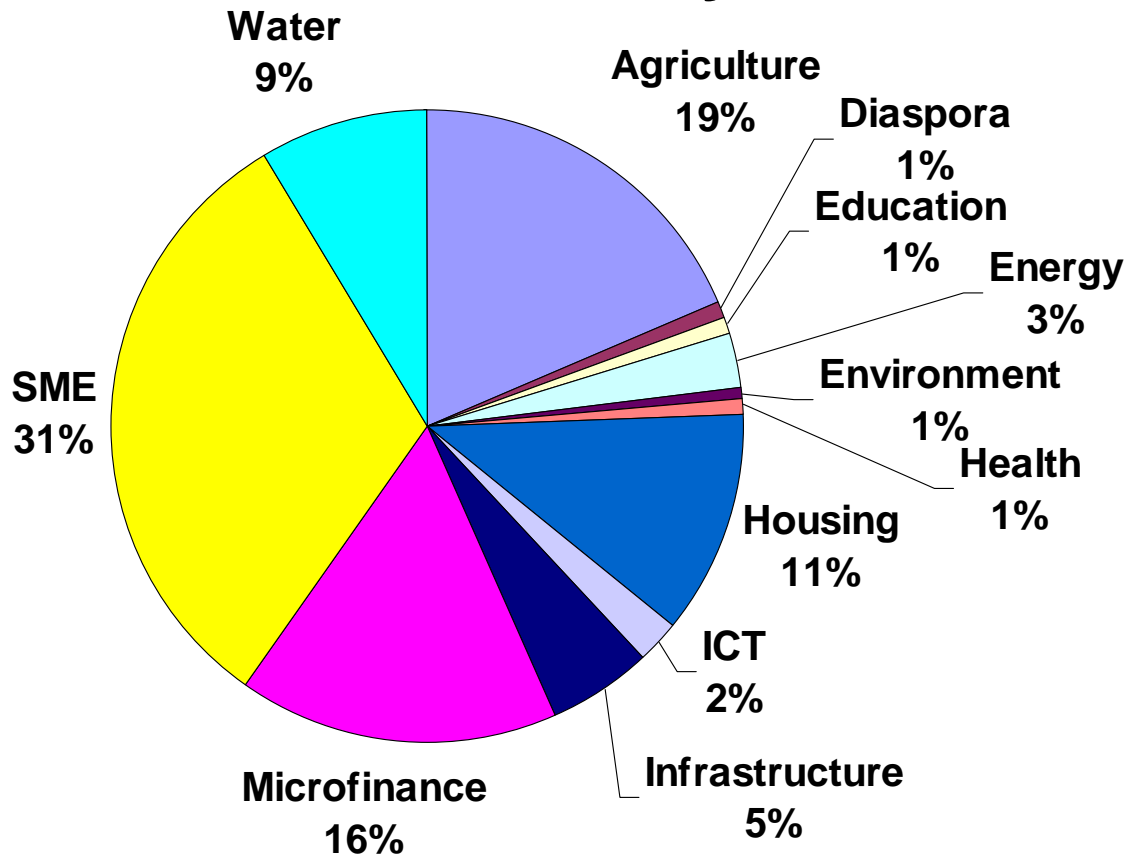
- **Sharing risk with the private sector**
- **Demonstrating to lenders the potential of certain players in particular markets**
- **Demonstrating to borrowers the potential to successfully secure needed capital**
- **Providing a sustainable source of capital to borrowers**



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 Guarantees Worldwide by Sector

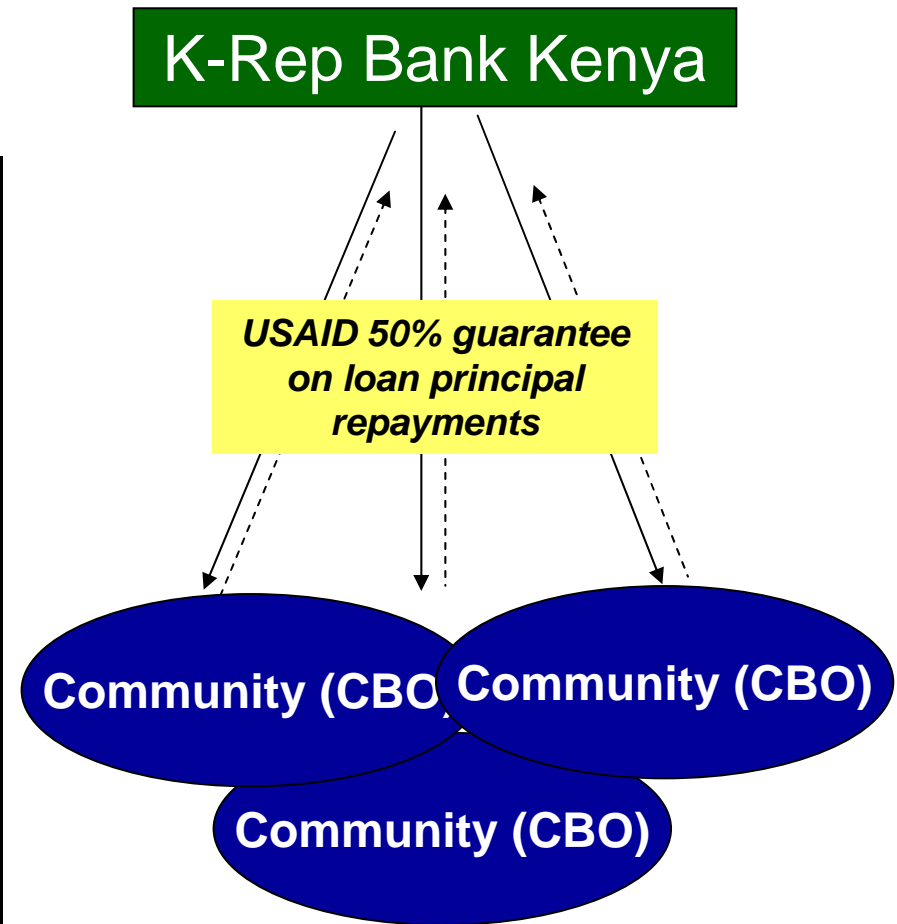


Almost \$1.6 billion in private-sector credit has been mobilized since DCA's inception in FY99

Loan Portfolio Guarantee

Kenya

Partner Bank	K-Rep Bank of Kenya
Total Loan Amount	\$5 million
Guaranteed Portion	\$2.5 million
No. of Years	10
Purpose	Facilitate commercial financing of small-scale water infrastructure for peri-urban communities.





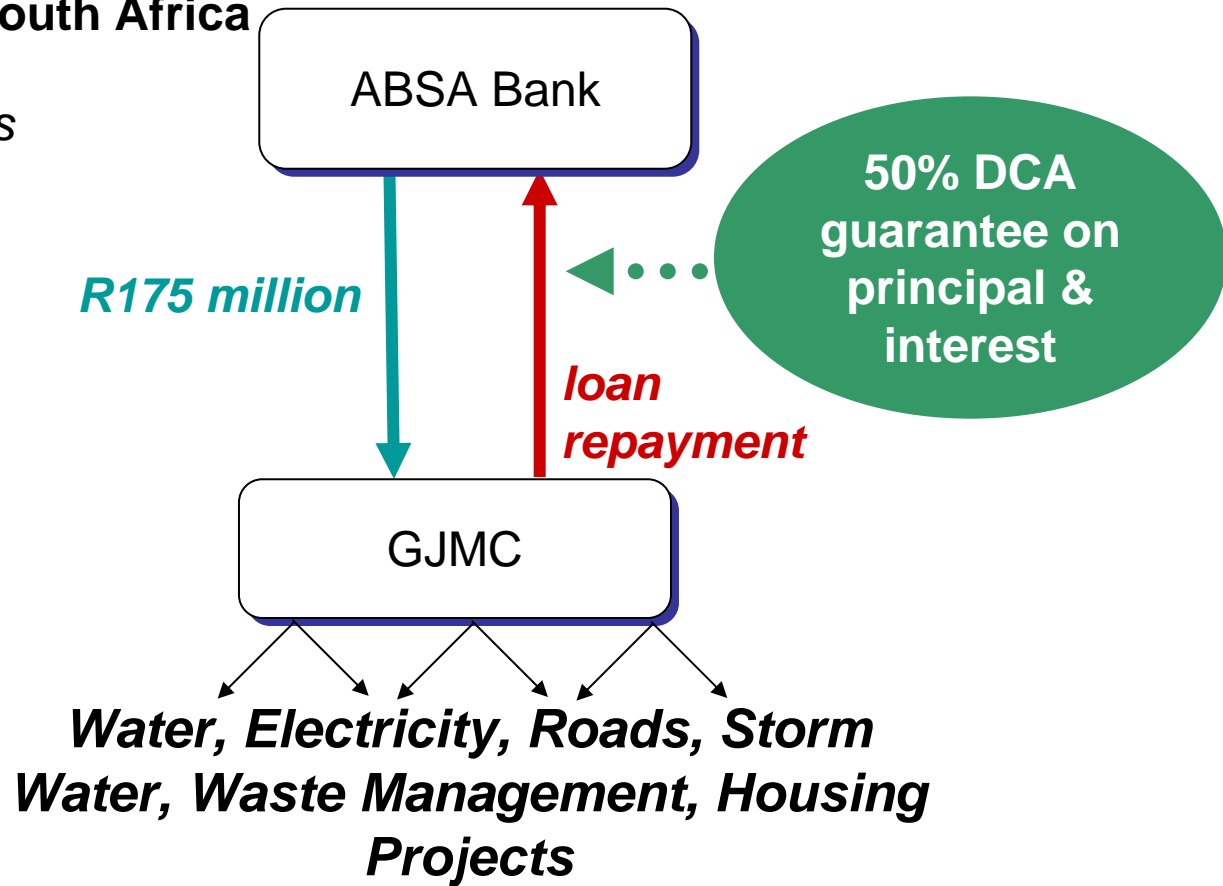
Portable Guarantee – South Africa

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.



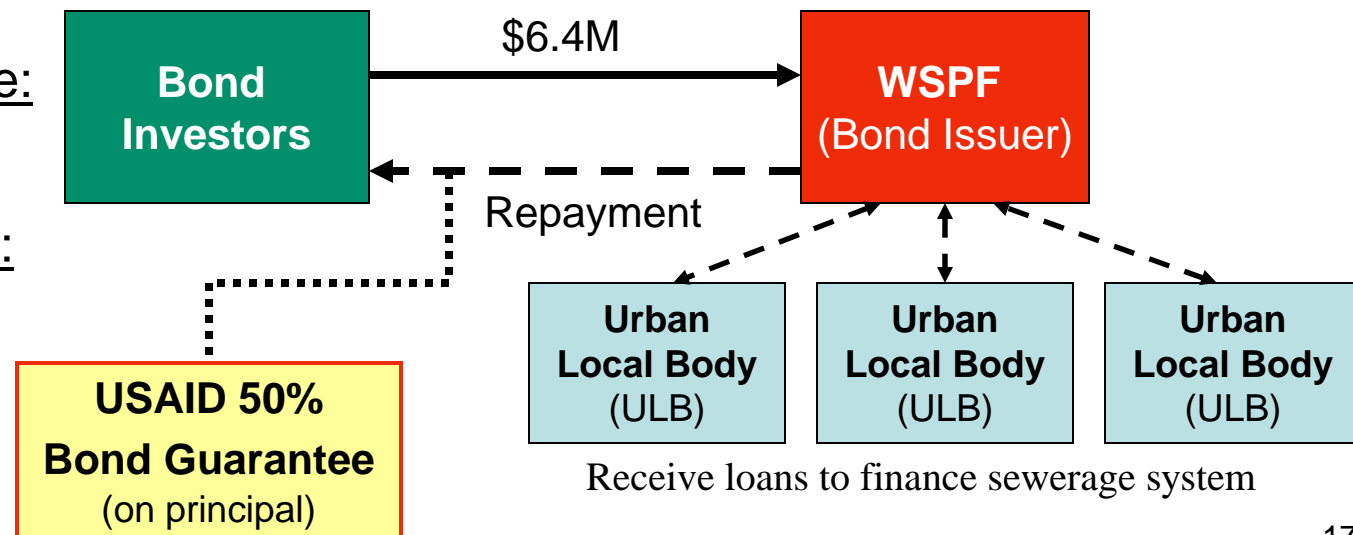
Bond Guarantee

- \$6.4 M bond issuance by SPV for State of Tamil Nadu
- Rated AA
- Proceeds of bonds on-lent to ULBs to finance massive sewerage system for greater Bangalore

Total Bond Issuance:
\$6,400,000

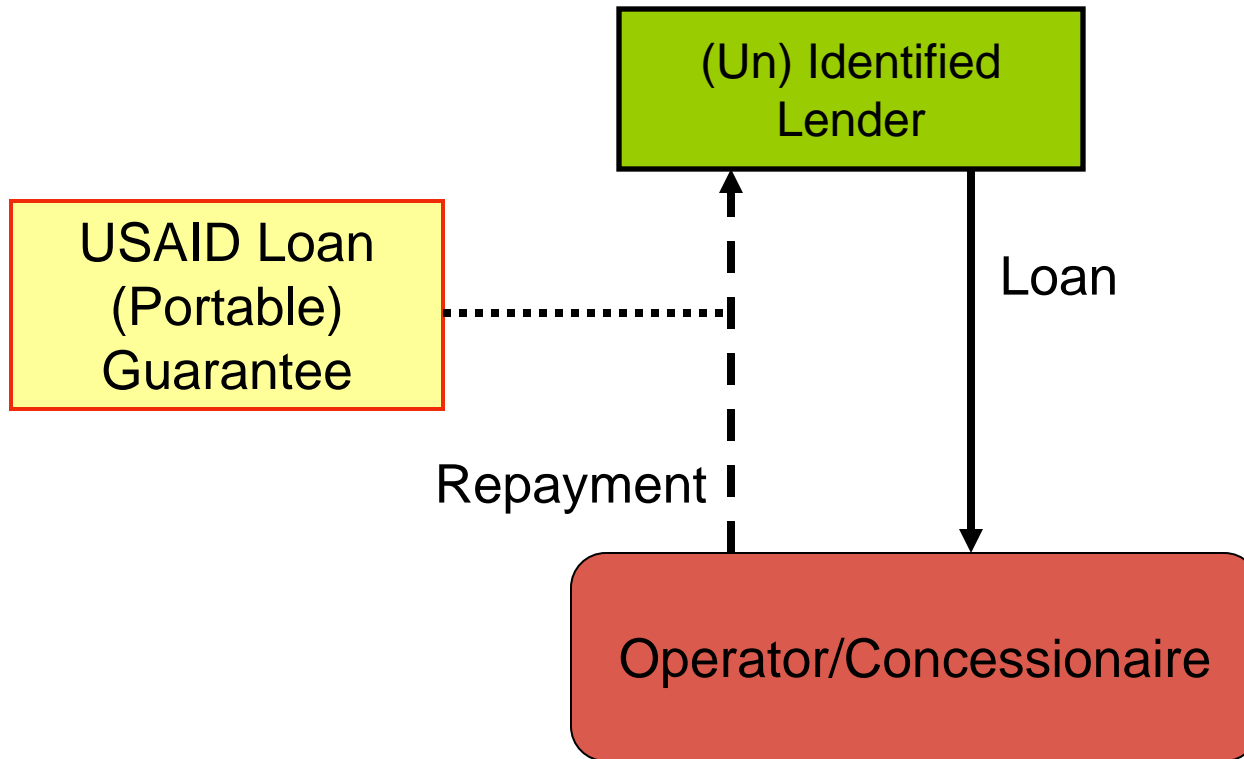
Portion Guaranteed:
\$3,200,000

Tenor:
15 Years



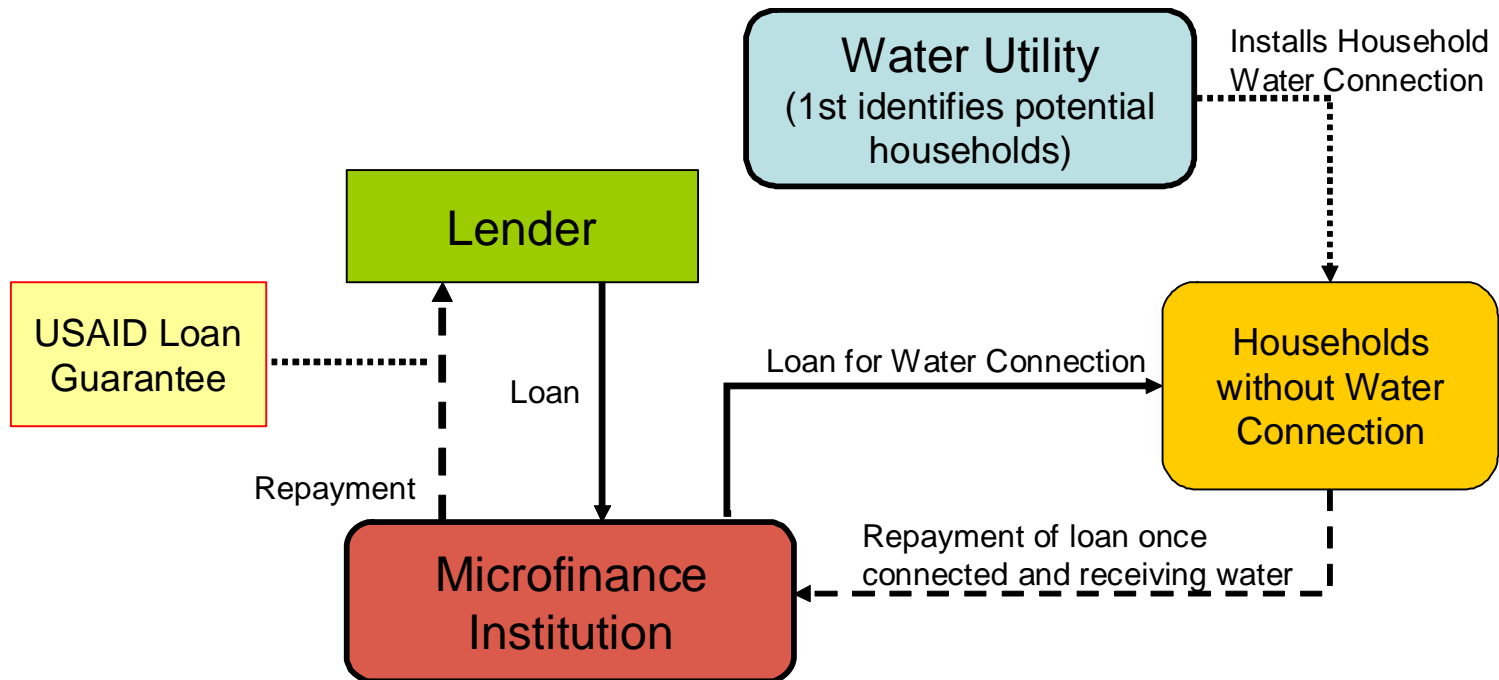


Concessionaire or Utility Operator





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