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# **Credit Enhancement for Municipal Finance:**

## **USAID's Development Credit Authority**



# What are the most common forms of credit enhancement?

- **Debt service reserve funds**
- **Performance guarantees**
- **Private sector bond insurance**
- **Political risk insurance**



# Why use credit enhancement for infrastructure finance?

- **Lenders don't trust/understand the sector**

# When is credit enhancement appropriate?

- **Meet basic cost recovery and operational standards**



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# Why DCA for municipal finance?

- **Tremendous financing needs**
- **Dormant domestic capital**
- **Reduce credit risk & perception**
- **Address market imperfections**



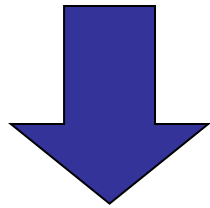
# **DCA Mobilizes Private Capital By**

- **Sharing risk with the private sector**
- **Showing lenders sector potential**
- **Taking borrowers to sustainable capital**
- **Improving credit rating for bonds**

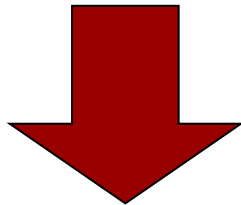


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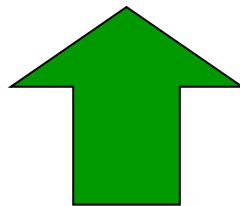
# Impact of Credit Guarantees



**Risk Perception**



**Collateral Required**

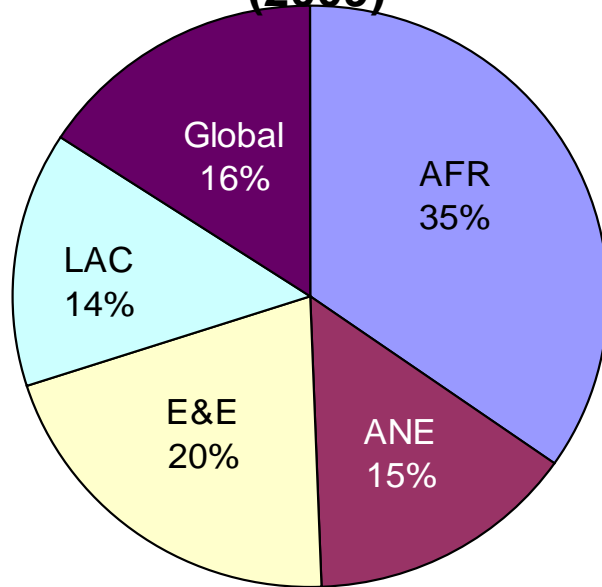


**LT Finance**

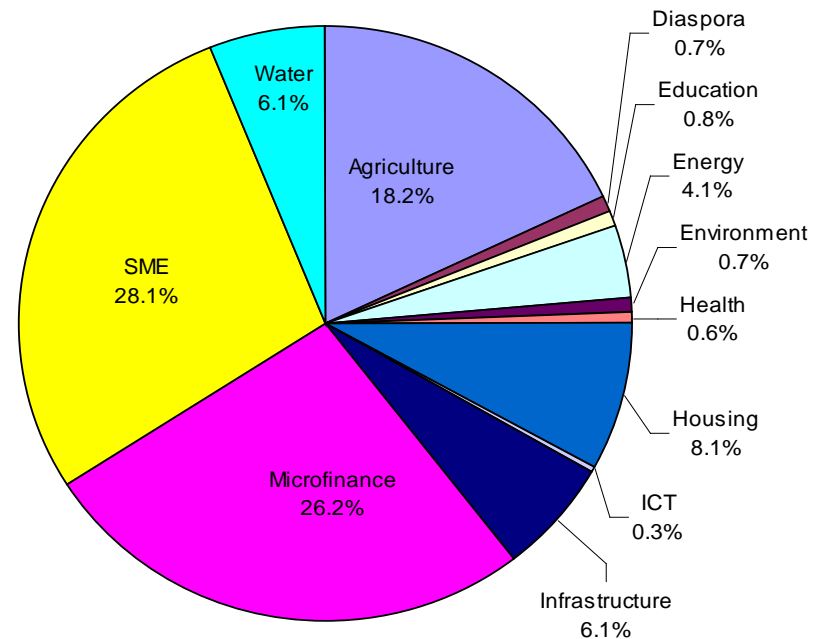


# History of DCA Credit Guarantees

**Cumulative Portfolio by Region  
(2009)**

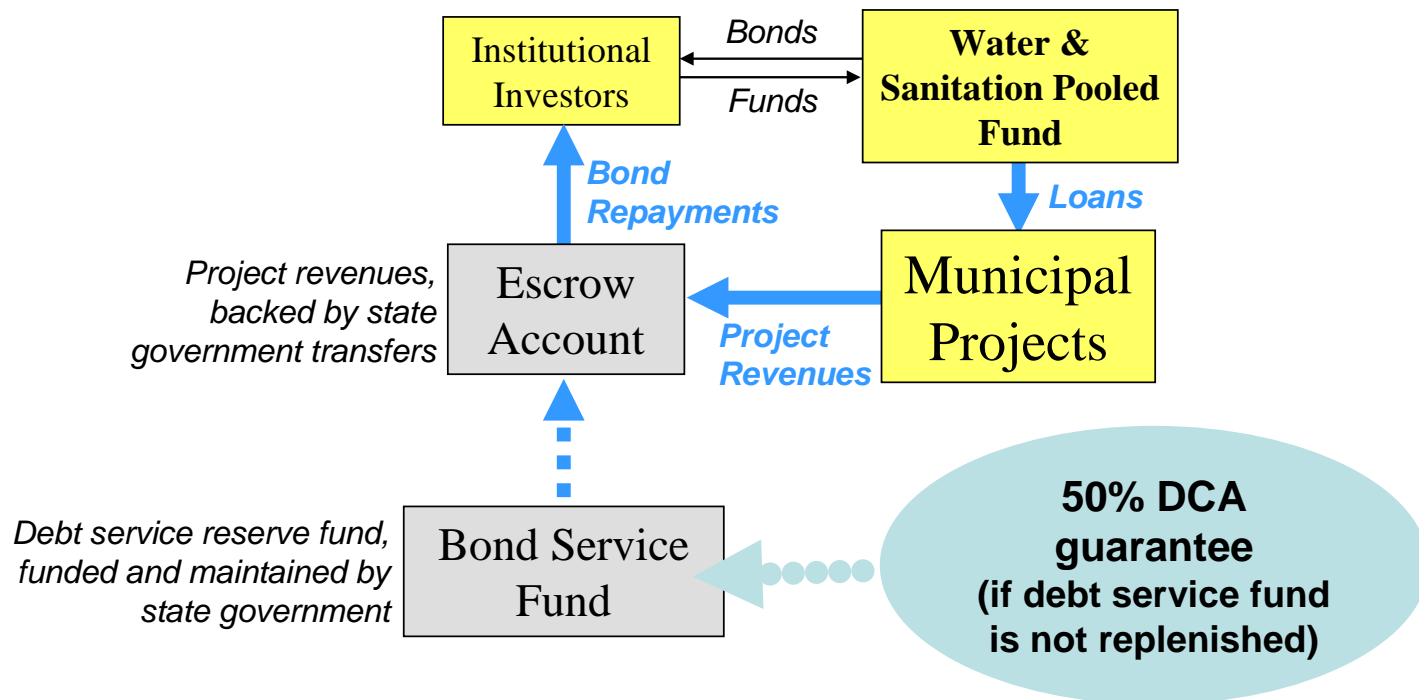


**DCA Portfolio by Sector**





# Bond Guarantee for Karnataka, India



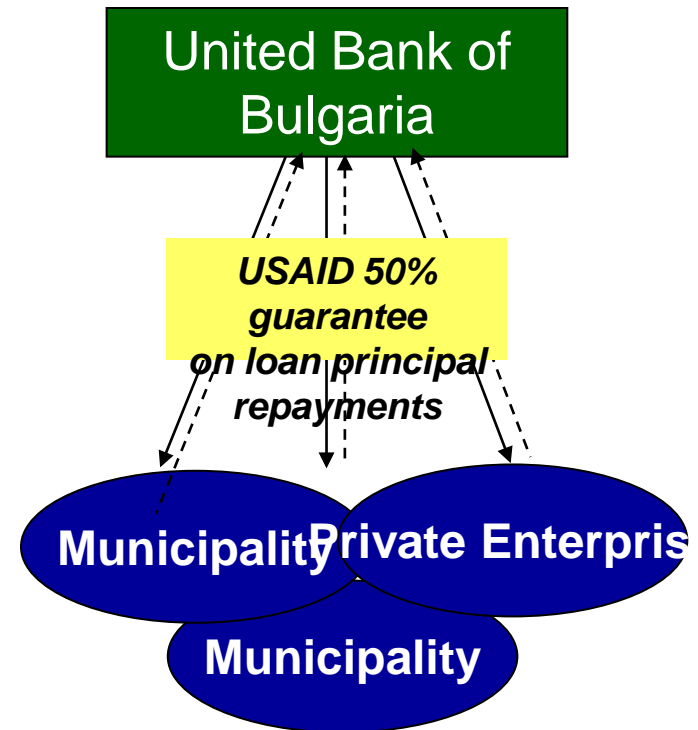
Improved capital markets, improved access to water & sanitation





# Loan Portfolio Guarantee in Bulgaria

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



Improved municipal financing & efficient energy use 9



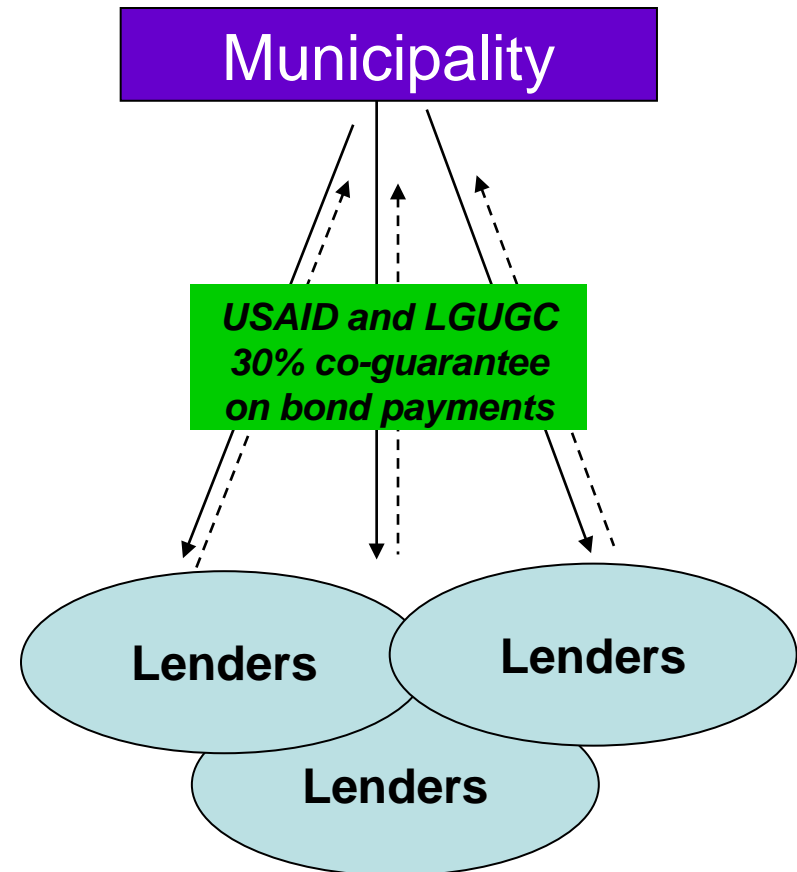
Amount: Appr. \$24.5 million

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# INFRASTRUCTURE

## Loan Portfolio Guarantee on Municipal Bonds in the Philippines

|                           |  |
|---------------------------|--|
| <b>Partner</b>            | Philippines Local Government Unit Guarantee Corporation (LGUGC)  |
| <b>Total Loan Amount</b>  | \$24.5 million   |
| <b>Guaranteed Portion</b> | \$8 million  |
| <b>No. of Years</b>       | 15   |
| <b>Purpose</b>            | To support LGUGC make credit available for municipal investments |





## ***Keep in mind...***

- **DCA guarantees work best along with good technical assistance**
- **Need champions at the mission and financial institution**
- **Develop sound basis for a guarantee – ensure *access to finance* is the missing link**