

Credit Guarantees Spark Local Loans For New Projects



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An Indian couple, ultimate beneficiaries of a USAID development credit guarantee project, hold up their water bill.

Within two years, some women in rural Upper Egypt will turn on a water tap in their homes, instead of walking long distances carrying heavy water pots or waiting for hours at public taps.

USAID is supporting projects that will provide municipal water that is clean, dependable, and cheap to Egyptian homes.

Throughout rural and impoverished urban areas of the country, water projects are being built through an imaginative loan guarantee tool provided to USAID's Egypt mission by the Development Credit Authority (DCA).

These guarantees mean that the U.S. government backs local private lending to encourage Egyptian capital to be invested in development projects.

Where access to credit is limited or unavailable, DCA is a way for USAID missions to encourage private sector financial institutions to provide local financing for development projects.

In Egypt's water sector, this will mean lower water bills, improved wastewater systems, better customer delivery services, increased water quality, more efficient water meters, and greater encouragement for private firms to compete with public utilities.

Through DCA, the Agency is able to go beyond traditional aid to the poor and stimulate Egypt's private finance sector. DCA guarantees give missions an innovative way to stimulate lending in the private sector without resorting to conventional grant-funded programs.

Using DCA's loan guarantee, USAID/Egypt committed about \$1 million, which sparked about \$56 million in loans by local banks to local businesses for contracts to provide water and wastewater services.

In July, USAID's Credit Review Board

approved nine new guarantees, each representing public-private partnerships between USAID and local financial institutions. Four of these guarantees are for projects in the water and sanitation sectors, and will result in \$73 million in local currency loans, including the \$56 million for Egypt.

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The guarantees supported President Bush's Water for the Poor Initiative, announced last year at the World Summit on Sustainable Development in Johannesburg. The summit set a goal of cutting in half the proportion of people without access to basic sanitation by 2015.

The United States proposed investing almost \$1 billion in water projects over the next three years.

Responding to the president's pledge, USAID missions in Morocco and Bosnia have created projects similar to Egypt's. In both countries, small communities that were formerly excluded from private lending sources can now finance improvements in their water systems.

The overwhelming majority of Morocco's urban population is not connected to a sewage treatment facility.

Since its inception in April 1999, DCA has provided more than 50 guarantees that enable the local private sector to channel needed resources to microenterprises, small businesses, farmers, mortgage markets, and now water utilities. ★

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