Development Credit Authority

Operations Manual

USAID

United States Agency for International Development

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DCA Operations Manual

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Background

PURPOSE OF OPERATIONS MANUAL

The *DCA Operations Manual* describes the overall process to develop and monitor a Development Credit Authority (DCA) project. The primary audiences of this Manual are USAID overseas offices and technical/regional bureaus interested in further understanding how DCA projects are started, developed, and monitored. Their roles and responsibilities are critical to successfully implement a DCA project. Equally as important, the USAID Office of Development Credit (ODC) will provide the centralized role of coordination and monitoring of the DCA portfolio. Other USAID entities involved in DCA projects, such as the Office of General Counsel and the Office of Financial Management, should also adhere to the operating procedures presented in this Manual.

It should be noted upfront that this *DCA Operations Manual* is not a stand-alone document. The Automated Directive System (ADS) comprises USAID's official, written guidance on policies, operating procedures, and delegations of authority for conducting USAID business. *ADS No. 249* (http://www.usaid.gov/pubs/ads/200/249.doc) provides specific guidelines to the policies and procedures of DCA. Based on the policies outlined in the ADS No. 249, two manuals have been produced to further detail internal guidelines for DCA projects. *The DCA Operations Manual* provides Missions, the ODC and other parties with a set of standard operating procedures for DCA, while the *USAID Development Credit Risk Assessment Handbook* details how to assess DCA credit risk.

DCA Guidelines

♦ADS No. 249♦

♦Operations Manual♦

♦Credit Risk Assessment Handbook♦

DCA OVERVIEW

Originally authorized by Congress in FY1998, the Development Credit Authority (DCA) provides overseas USAID Missions[1] with a tool by which they may encourage the use of credit and expand financial services in underserved markets. This Authority, supported by the USAID Office of Development Credit, allows USAID Missions to partner with local lending institutions in making resources available for investments that support development objectives. Through DCA, Missions insure a portion of the risk with the lending institutions. As a result, a small amount of USAID development assistance funding enables the local banking sector and other sources of private capital to take on projects that otherwise would not be funded.

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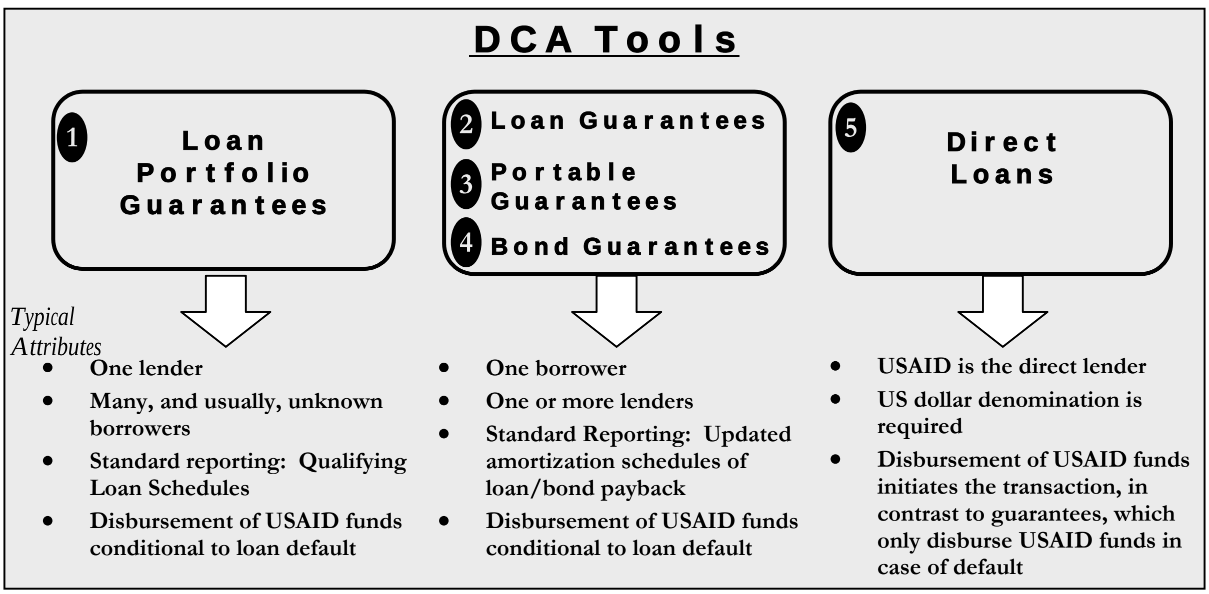
1 Throughout this manual, a "Mission" is identified as the USAID operating unit that can originate and develop a DCA project. Regional and technical USAID bureaus can also develop DCA projects; Missions are solely identified to simplify this document. Also, the majority of DCA projects through FY2001 have originated from overseas Missions.

The goals of DCA are two-fold:

- Mobilize private capital to finance development initiatives abroad; and
- Demonstrate the economic viability of such investments to the local banking sector and to other sources of private capital.

DCA PRODUCTS

The use of credit provides USAID with a powerful tool for achieving its development goals. Private sector resources can be mobilized in many ways through a number of appropriate financial instruments available under DCA. By selecting the most appropriate credit instrument for a specific project, USAID assures efficient and effective use of assistance resources while providing local participants a stake in their own success. This flexibility of credit, the partnerships, and the interaction with local market participants are the cornerstones of DCA's effectiveness. The five credit tools available to Missions through DCA are divided into three categories, which will be explained subsequently.



Loan Portfolio Guarantee

A Loan Portfolio Guarantee provides financial institutions with partial coverage on a portfolio of loans that they provide to their customers. In the case of the Loan Portfolio Guarantee, USAID agrees to share in the risk of a broadly defined category of bank loans with a view toward inducing local banks to extend credit toward an underserved sector. If these customers are lending institutions, the DCA guarantee is referred to as a "wholesale" guarantee.

Loan Guarantee

The typical Loan Guarantee, also referred to as a project-specific guarantee, allows USAID to use DCA for specific credit enhancement purposes in cases where the borrower, lender, and uses of loan proceeds are known.

Portable Guarantee

Slightly different than the Loan Guarantee, the Portable Guarantee provides the borrower with a letter of guarantee commitment through which the borrower may seek the most advantageous terms from the local financial market. Portable Guarantees are appropriate for specific credit enhancement purposes and the purpose and borrower are known, but the lender is not yet known. In these cases, a minimum credit rating (e.g., from rating agencies such as Standard & Poor's and Moody's) is established, and the risk calculation and subsidy cost[2] are based on the assumption that the eventual lender will have a rating equal to or above this minimum rating.

Bond Guarantee

Bond guarantees support the issuance of bonds by financial institutions, private sector corporations, or sub-national entities. The funds generated from the bond issuance can, for example, assist in raising local funds to initiate municipal infrastructure or utility projects, which require substantial upfront capital investments. The bond guarantee is typically an option for DCA credit assistance if the capital and financial markets are fairly well advanced in a particular country to support a bond issuance. However, the DCA guarantee can also be used to encourage the development of bond issuances in less sophisticated markets.

Direct Loan

Direct loans to creditworthy institutions will be used only in cases where private sector financing is not feasible/available. Disbursements should normally be made directly to the borrower (as opposed to contractors or suppliers) to finance the borrower's eligible activities as defined in the loan agreement. These loans predominantly support activities in more than one country, for example through a multinational non-government organization. DCA loans are also based in U.S. dollars to reduce foreign exchange risk.

Common Attributes of DCA Products

Several common aspects of the aforementioned DCA credit tools, across the three categories, should be noted as a USAID Mission decides to pursue a DCA project. These attributes are intended to provide guidance and further clarification of how DCA projects are structured. However, USAID Missions should also realize that these attributes are not strict regulations that prohibit alternatives that deviate from these norms. DCA is designed to be flexible to suit the particular needs of a project. USAID Missions must submit all exceptions to the standard DCA terms and conditions for approval by the Chief Financial Officer through the Credit Review Board (CRB)[3] in USAID/Washington.

- **Preference of Local Currency Denomination**: DCA credit instruments can be denominated in either U.S. dollars or local currency, but the typical loan is originated in local currency in order to match the revenues generated by the project to loan repayments.

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[2] The subsidy cost is the 'price' the Mission pays for the DCA guarantee. It is useful to think of the subsidy cost as a type of loan loss reserve in the case of default, or as a type of insurance premium that is paid whether or not an event occurs. For a detailed definition of subsidy cost, see Appendix II.

[3] The CRB consists of the CFO, as chairperson, a senior officer of each of the four Regional Bureaus, and representatives from the Office of General Counsel and the Bureau for Policy and Program Coordination. The Office of Inspector General shall advise the CRB on past audits and investigations and participate in discussions on new issues.

- **Guarantee Ceiling**: DCA guarantees require true private sector risk-sharing, and therefore, USAID's contingent liability is limited to a maximum of 50 percent of the financial institution's net loss. Guarantee coverage in excess of this ceiling must be approved by the CRB. In order to avoid U.S. Government exposure to extreme currency fluctuations, this Guarantee Ceiling is also expressed in U.S. dollars.

- **Maximum Term**: Unless otherwise approved by the CRB, no DCA guarantee may have a term in excess of 20 years. DCA term lengths should be consistent with normal financial practice, to the extent practicable, taking into account the useful life of the project and the anticipated cost recovery streams.

- **Origination and Utilization Fees**: A one-time origination fee of not less than 0.25 percent of the Guarantee Ceiling should be charged as determined by the authorizing official and justified in the activity analysis. Utilization fees of a minimum 0.25 percent per annum of the guaranteed portion of outstanding principal amount are normally charged on a semiannual basis. DCA fees partially compensate the U.S. Government for its obligation to pay future claim defaults.

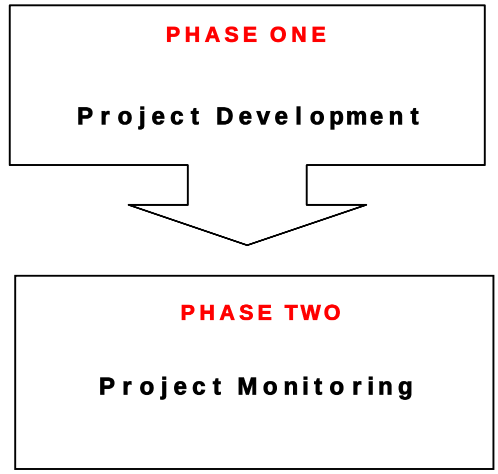
Distinct Attributes of DCA Products

- **Reporting Requirements**: A loan portfolio guarantee will require participating financial institutions to submit quarterly or semiannual reports on the status and utilization of the DCA guarantee. Standard reporting includes a listing of guaranteed loans, coverage dates and outstanding principal balance updates to permit accurate billing and collection of utilization fees. New loans under coverage will also be updated to ensure that 1.) the portfolio of loans complies with the intended purpose of the guarantee and 2.) the total amount of cumulative loans placed under coverage does not exceed the total authorized amount as stipulated in the guarantee agreement.

  In contrast, a DCA loan guarantee, portable guarantee or bond guarantee is based on a single debt instrument, such as a loan or bond. Reporting on this instrument typically involves the creation of an original amortization (i.e. repayment) schedule, which the financial institution will update semiannually or annually to report that the borrower is paying off the debt as anticipated.

- **Utilization Performance Measurement**: Loan portfolio guarantee balances will increase and decrease depending on the placement of new sub-loans under guarantee coverage and the removal of sub-loans from guarantee coverage. In contrast, loan, portable and bond guarantees will typically begin with the full amount of outstanding principal and gradually decline over time as the borrower pays back the loan or bond.

PROCESS OVERVIEW



The overall DCA process is split into two distinct phases: Project Development and Project Monitoring.[4] DCA project development and monitoring are further detailed in the main sections of this *DCA Operations Manual*. The Office of Development Credit has also created a "*14-Step Guide to Preparing a Development Credit Authority (DCA) Proposal*" which provides an overview of the Project Development section of this *DCA Operations Manual*. For those interested in gaining a simplified, high-level understanding of DCA project development steps, please refer to the "*14-Step Guide*". For a more detailed and complete description of the development phase, the *DCA Operations Manual* is the most comprehensive resource.

Brief highlights for those interested in the project development and project monitoring phases, and not the details of this process, are as follows:

Project Development

The sponsoring USAID office, typically an overseas 'Mission', works with potential lenders and/or borrowers to structure the DCA credit instrument. The Mission should seek technical advice from relevant offices, including credit and project structure advice and guidance from the Office of Development Credit, as required. Following a series of required analyses, which are summarized in an Action Memorandum, the Mission requests USAID CFO approval of the DCA subsidy transfer. These analyses include:

- *Development Analysis* to ensure the activity meets a USAID strategic objective
- *Economic Viability Analysis* to verify that USAID is the "lender of last resort" and that the DCA credit tool addresses a market imperfection related to local private capital
- *Financial Viability Analysis* to assess the ability of the project to earn sufficient income to cover operating and administrative costs, including debt service payments

In addition to these analyses, the following documents must be included in the Action Memorandum.

- *Financial Monitoring Plan* to address how the Mission and the ODC will monitor the credit activity
- *Fee Justification* to validate how the origination and utilization fees are determined

These analyses and documents provide the necessary data inputs for the ODC to conduct a credit risk assessment to be submitted with the Action Memorandum. At the same time, the Mission, in coordination with the ODC and with support from the USAID Office of General Counsel, should draft legal agreements to specify the obligations of all involved parties. Following CFO approval of

[4] A DCA "project" throughout this Manual refers to a proposed DCA activity in a Mission.

the subsidy, the Mission must submit a Congressional Notification to disclose its intended budget utilization, which includes the funds transfer to the DCA program account. The Mission then requests the funds transfer from USAID/Washington. Once the funds are transferred, the Mission proceeds to finalize and sign legal documents to initiate the DCA project.

Project Monitoring

The primary aspects of monitoring a DCA project are: utilization, risk exposure, timeliness of fee payments and reporting, subsidy reviews, and claim payments. The Office of Development Credit, with field support from the Mission, will coordinate these monitoring responsibilities.[5] Project monitoring concludes with 'close-out' activities at the end of the loan/guarantee term.

Typically, the participating financial institution will be responsible for submitting semiannual or quarterly reports to the Mission and to the Office of Development Credit. If there are errors, discrepancies or possible non-compliance issues in reporting, or if the reports are late, the ODC will contact the Mission to request direct follow-up with the participating financial institution. In this regard, the ODC will take the lead role to ensure that the reports from the participating financial institutions are compliant as stipulated in the DCA guarantee agreements.

Once this review is complete, the ODC will forward these reports to the Office of Financial Management, Loan Management Division (FM/LM) and its 'Financial Agent' contractor for fees, billing and collection.[6] The manner in which fee tracking is coordinated by the ODC is detailed in a later section of this Manual.

Annual reviews of the "subsidy" (loan loss reserve) of the DCA guarantee or loan begin with the ODC collecting audited financial statements of lenders/borrowers. ODC staff will then review and assess the current conditions of the DCA project and determine if the current subsidy requires adjustment based on the estimated risk exposure for the DCA project. Any upward adjustment to the subsidy level will be covered by the permanent indefinite appropriation, which will not affect Mission funds. Downward adjustments involve returning excess subsidy to the U.S. Treasury.

In the event of a claim request from a borrower or lender, the ODC is responsible for the initial evaluation prior to forwarding the request to the Mission for review. The Mission Director then approves the claim payment, and requests from FM/LM, the appropriate funds transfer for claim payment. In exceptional cases, based on claim amounts that represent a significant proportion of the authorized amount guaranteed by USAID, the ODC will consult the CRB for guidance.

ROLES AND RESPONSIBILITIES

The following table summarizes the roles and responsibilities in project development and monitoring for all the key entities involved with DCA.

[5] The ODC is in the process of developing a database system, Credit Management System, to collect, monitor and analyze DCA portfolio data.

[6] Unless otherwise noted, "FM/LM" refers to the Office of Financial Management, Loan Management, and its "Financial Agent" contractor throughout this Operations Manual.

ENTITY	RESPONSIBILITIES
Mission	• Gathers data for proposed DCA activity and conducts development analysis • Coordinates economic viability and financial viability analyses with ODC • Prepares fee justification • Provides inputs for risk assessment • Develops financial monitoring plan in conjunction with ODC • Prepares Congressional Notification • Monitors activities (financial & developmental aspects) • Responds to non-compliant borrowers/lenders as requested by ODC • Approves claim payments and submits request for funds to be disbursed by FM/LM • Prepares Exception Reports in cases of possible default
Office of Development Credit	• Provides activity development support as requested by Mission • Assists and reviews Mission's financial viability and economic viability analyses • Submits monitoring plan template to Mission to include in Action Memorandum • Performs risk assessments and subsidy cost calculation of activities; also calculates annual re-estimates of subsidy costs • Assumes overall responsibility for monitoring and portfolio management for all DCA projects (including monthly and quarterly portfolio status reports) • Reviews and submits claim payments to Mission for approval/payment
Credit Budget Officer (PPC)[7]	• Tracks and monitors DCA program and financing accounts • Coordinates Congressional Notifications with Regional Bureaus • Coordinates DCA appropriation with OMB • Participates in annual President Budget exercise related to credit programs
Office of FM/LM	• Monitors fee billing and collection activities. • Disburses claim payments once approved by Mission Directors • Performs general ledger accounting functions for all credit programs • Prepares financial statements
Financial Agent (as contracted by FM/LM)	• Bills and collects funds on behalf of USAID • Issues Notices of Payment Due and first late notice if fees not received • Prepares weekly reports on delinquent fee payments and late reporting • Prepares monthly "Control Logs" delineating utilization, disbursements, and receipts of credit related activities • Provides ledger accounting data for all credit programs, and feeds this data to USAID Standard General Ledger
Credit Review Board	• Reviews and recommends financial and economic analyses, financial monitoring plans, and subsidy cost estimates for the Chief Financial Officer's approval • Oversees the financial soundness of USAID credit programs • Reviews/recommends to CFO any deviations or unusual credit activities
Chief Financial Officer	• Approves activity-specific financial and economic analyses and financial monitoring plans • Approves the credit subsidy cost • Approves any deviations from DCA standards
Office of General Counsel	• Provides legal assistance for loan and guarantee agreements, work-outs and activity termination • Provide inputs to Regional Legal Advisors as required
Office of Management & Budget	• Compiles annual budget submission and provides budgetary approval • Reviews and approves new credit models • Appropriates subsidy (loan loss reserve) funds to DCA Account

[7] Position to be created in the Bureau of Policy and Program Coordination (PPC).

GUIDING PRINCIPLES

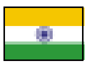
DCA is focused on ten guiding principals:

Principle 1	DCA is not a separate development program, but rather **a financing tool** to be used in addition to or in lieu of grant funding where appropriate.
Principle 2	DCA shall be a **demand-driven** initiative, with USAID Missions and Bureaus having primary responsibility for designing, authorizing and implementing activities that support development objectives.
Principle 3	DCA will be used primarily in USAID presence countries in **support of USAID strategic objectives**. DCA is also an appropriate exit strategy in countries where USAID assistance is being phased out.
Principle 4	DCA shall be restricted to **non-sovereign partners**, which may include sub-national, local authorities, or private sector entities.
Principle 5	DCA requires **independent assessments** of the development impact and the credit risk to ensure impartial and appropriate evaluations. As such, USAID Missions usually lead the development feasibility analysis and the Office of Development Credit performs the credit risk assessment.
Principle 6	DCA requires true **risk-sharing**. For loan guarantee transactions, USAID covers a maximum of 50 percent of a lender's risk, with at least half of the default risk covered by a private sector financial intermediary or the borrower.
Principle 7	DCA intends to address **market imperfections** and shall be used as the "lender of last resort." Assistance shall be made at market rates so as not to subvert existing financial markets.
Principle 8	DCA credit-related instruments shall be used with projects that demonstrate **positive financial rates of return**, i.e. a capacity to service current and future debt obligations, and where the risk of default may be reasonably estimated and managed.
Principle 9	**Currency mismatches** are strongly discouraged. Revenues generated by DCA-supported activities should match the currency of the borrower's debt obligations.
Principle 10	DCA **fee structures** are to be designed to encourage utilization, while taking into consideration local practice and the development rationale of the DCA project.

SAMPLE DCA PROJECTS

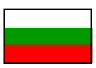
Even if there is the potential to generate income, development projects can often be perceived by local credit markets as risky endeavors. In economies where these types of projects do not occur, market distortions can remain, resulting in inefficient economies and under-represented and disenfranchised segments of society.

From microenterprise financing to renewable energy promotion to mortgage market creation, DCA projects help fill voids left by inefficient or underdeveloped markets. Once the sustainability and profitability of such projects is demonstrated, local institutions are more likely to expand financial services to traditionally under-represented economic sectors and social groups. Often, this sets in motion a long-term process for meeting the on-going credit needs of municipalities and private and non-profit organizations in less developed countries.



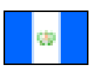
INDIA

In partnership with an urban development fund, USAID/India is using a DCA guarantee to insure a portion of a municipal bond issuance. The capital raised by the bonds is being used to fund water supply and sewage treatment projects near the metropolitan area of Chennai.



BULGARIA

USAID/Bulgaria uses DCA to reduce energy consumption and costs by encouraging municipalities to undertake needed infrastructure improvements and to promote private sector lending for energy efficiency projects. DCA partially guarantees private bank loans to municipalities for energy-efficiency projects.



GUATEMALA

The Mission in Guatemala uses DCA to spur entrepreneurial and infrastructure development activities. With a DCA guarantee, USAID/Guatemala has been able to encourage private investment to help rebuild a region highly affected by a recent civil war.

MEXICO

USAID/Mexico guarantees financial institutions to increase investment opportunities available to micro-, small-, and medium-sized enterprises throughout Mexico. DCA provides rural and urban banks and credit unions with 50% guarantees to expand lending activities to these targeted entrepreneurs.

SOUTH AFRICA

USAID views infrastructure projects as a key component of economic growth. The Mission uses DCA loan guarantees to support investment in water, utilities, and infrastructure projects by Johannesburg's municipal environment and infrastructure authority.

FURTHER DETAILS (ADS 249)[8]

DCA is the legislative authority that permits USAID to issue partial loan guarantees to private lenders to achieve the economic development objectives in the Foreign Assistance Act of 1961. DCA guarantees require true private sector risk-sharing where the USAID share of credit risk does not exceed 50 percent (exceptions to this limit require special approval). DCA permits USAID to offer a mixture of grant and credit assistance in settings where USAID seeks more disciplined and sustainable assistance relationships. DCA also authorizes USAID to make direct loans.

DCA is a low cost, credit enhancement or tool to introduce private lenders and investors to creditworthy but underserved markets. It is based on the assumption that sustainable economic growth will occur when private financial markets in developing countries learn to emulate U.S. financial markets by mobilizing domestic capital and putting it to work.

DCA cannot be used for sovereign borrowing that could be subject to Paris Club[9] rescheduling. In contrast, DCA is intended for use in lieu of more costly grant assistance when a Mission can achieve the same goals, the borrowers are reasonably creditworthy, the projects are financially viable, and market imperfections prevent funding from commercial sources.

Leverage, a key factor that makes DCA useful, results when USAID partial guarantees induce private lenders and investors to finance activities that support the Strategic Objectives (SO's) of the Missions. Leverage also results from Federal budget scoring rules under the Federal Credit Reform Act of 1990 (FCRA), which permits Federal Agencies to issue loans and loan guarantees having a nominal value far in excess of the value of appropriations. As a result, Federal agencies that can achieve some of their goals with credit assistance have an enormous budget advantage over those that cannot.

Under DCA, Missions have the flexibility to fund their activities with 100 percent grants, or they can transfer some of their funds to the DCA Account, and in effect, purchase the right to issue full faith and credit U.S. Government guarantees or loans, having a value far greater than the transferred funds. The actual cost to a Mission, termed the "subsidy cost" (as defined in ADS 249.6), to issue a loan or guarantee is determined by the USAID Chief Financial Officer (CFO) in Washington using risk assessment models approved by the Office of Management and Budget (OMB).[10] This subsidy can be perceived as a loan loss reserve or an insurance premium that estimates the true cost of the credit transaction based on forecasted fees collected and possible loan payment defaults.

Due to true risk-sharing with private sector "partners" on non-sovereign credit instruments, DCA guarantee activities are expected to be financially sound. USAID's private partners, which agree to share the majority of the financial risk, are expected to perform thorough independent risk analyses and provide adequate project management and oversight. This results in effective project oversight, especially in conjunction with Mission and ODC monitoring responsibilities.

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8 "ADS" is the USAID Automated Directives System.

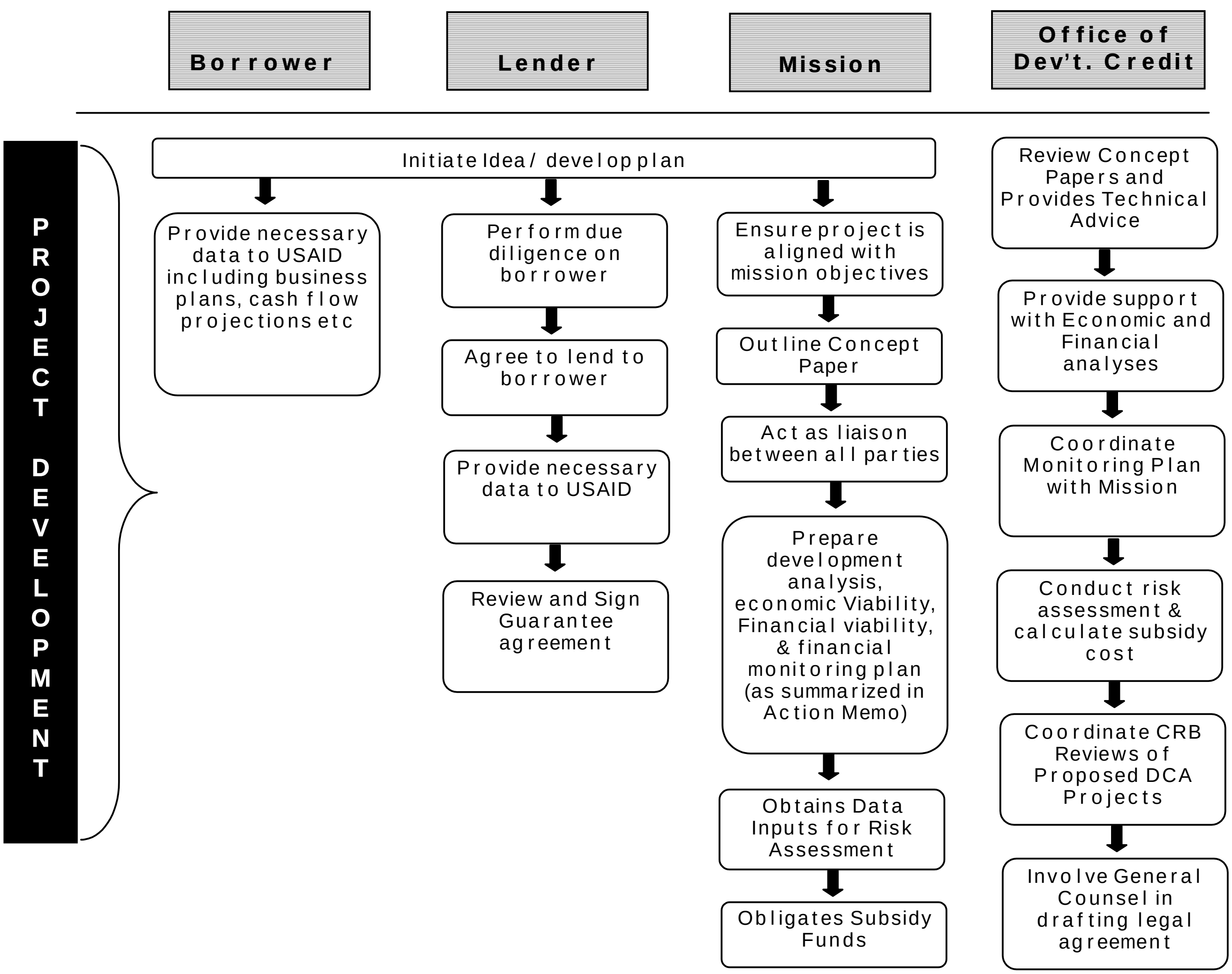
9 The Paris Club is an informal group of official creditors whose role is to find solutions to the payment difficulties experienced by debtor nations. Paris Club creditors agree to reschedule debts due to them. Rescheduling is a means of providing a country with debt relief through a postponement and/or a reduction in debt service obligations.

10 OMB supports the U.S. Executive Branch with budget oversight, as well as coordination of procurement, financial management, and regulatory policies, for the entire federal government.

Project Development

The following chart provides an overview of the key actions necessary to develop a DCA project. Essentially, there are four entities that play a major role in project development each with unique responsibilities with the exception of the project initiation step, which can be started by either the borrower, financial institution or the Mission. A subsequent diagram for Project Monitoring is also included in the beginning of a subsequent section of this Manual.

This Project Development diagram depicts a typical DCA loan guarantee structure. Borrowers and lenders, and their respective contributions in developing a DCA project, will vary with other DCA products. In regards to loan portfolio guarantees, borrowers are often neither involved or specifically identified. With a bond guarantee, lenders are potential investors in a municipal or private sector bond issuance. Lastly, in the case of a direct loan, USAID takes on the role of lender.



DCA CONCEPT PAPER OUTLINE

A USAID Mission identifies an opportunity to use credit to support one or more of its strategic objectives and/or ongoing activities. The Mission and USAID Office of Development Credit (ODC) may decide to discuss the idea via email, phone, etc. The Mission prepares a 2-3 page DCA concept paper using the following suggested outline. See Appendix III.A for a sample concept paper.

I. **Description and Purpose of Project**
- Background and Rationale (briefly describe what the Mission proposes to do and why)
- Developmental Importance
- Relationship to Mission Strategy/SOs/Ongoing Activities
- Collaboration with Other Parties, e.g., Donors, NGOs, Contractors, etc.

II. **Structure of Project**
- Financial Intermediary (provide brief background)
- Borrower (provide brief background)
- Intended Beneficiaries (if different from borrower)
- Type of Credit Facility (loan guarantee, bond guarantee, portfolio guarantee, portable loan guarantee)
- Estimated Amount of Project Financing (maximum portfolio size - US$ amount)
- Guarantee Ceiling (maximum USAID contingent liability -US$ amount)
- Guarantee Percentage (%) (covering principal only [preferred] or principal and interest)
- Term of Guarantee (number of years)
- Currency of Guarantee (US$ or local currency)

III. **Funding Source for DCA Credit Subsidy**
- Proposed funding transfers from existing budget resources

IV. **Management Responsibility**
- Initial project monitoring plan
- Clear identification of parties responsible for project development and implementation

V. **Other Funding Available for Technical Support**

VI. **Estimated Time Frame for Project Implementation**

The Mission also indicates to the ODC the amount of Mission resources (OYB – Operating Year Budget) that it is willing to commit to the project. In addition, if ODC considers the proposed project extremely risky (e.g., if the subsidy requirement is extremely high), the Mission might abandon the project at this stage or might engage in efforts toward restructuring the deal to reduce the subsidy cost estimate.

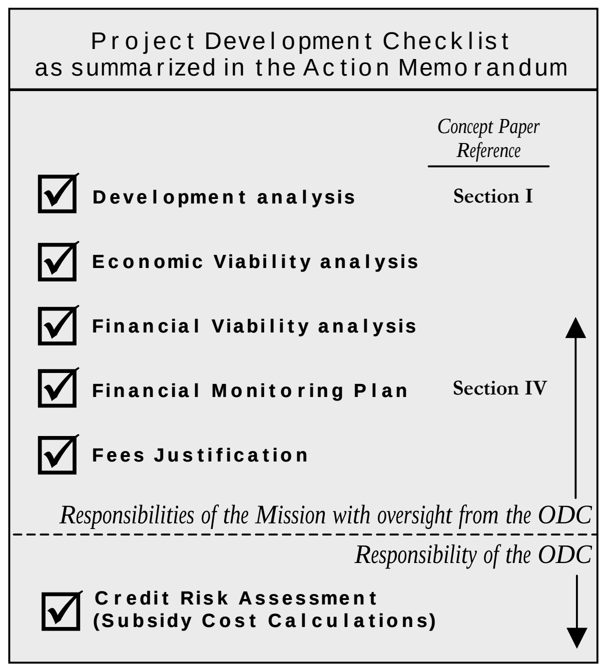
INITIAL REVIEW BY THE OFFICE OF DEVELOPMENT CREDIT

As the concept paper is developed, the Mission is encouraged to communicate with the ODC to obtain technical guidance related to credit tools/projects, taking advantage of the ODC institutional knowledge in order to consider lessons learned from previous DCA projects.

Missions should contact the regional and/or technical bureaus relevant to the project for advice and counsel. It is also possible for the Mission to request funding support from these bureaus if the potential DCA project contributes to strategic objectives of the region or a particular technical area.

If there are a substantial number of project proposals in one particular region, the ODC may elicit the advice of the regional bureau to prioritize projects to most effectively address regional objectives. This will assist the ODC in identifying the project proposals that require significant attention/assistance for further project development.

DETAILED PROJECT DEVELOPMENT



The Mission completes detailed project preparation, including the three required analyses – development, economic viability, and financial viability, along with other necessary project documentation as depicted in the diagram to the right. References to previously drafted work in the Project Proposal are highlighted in the right column of the diagram. For example, the Mission should utilize Section I of its Concept Paper as the basis of the Development Analysis. Similarly, the Monitoring Plan should further elaborate the Concept Paper's Section IV. As needed, the ODC will provide guidance and support to the Mission with project development. As the Mission further develops and summarizes these analyses, the ODC will oversee and advise the Mission on the content and structure of the Action Memorandum prior to submission to the Credit Review Board.

Development Analysis

The Development Analysis addresses the objective of the activity for developmental soundness – i.e., how the proposed activity supports the Strategic Objectives (SOs) of the Mission. As such, the Mission will review the expected development impacts of the project. A Mission must detail how the activity and its expected outcomes will contribute to the SOs already being pursued or new SOs being developed by the Mission. New intermediate results and indicators may be developed for the proposed DCA activity.

The Mission produces the Development Analysis, as initially drafted in Section I of the Project Proposal, which the Mission Director will approve as part of the overall Action Memorandum submitted to the Credit Review Board. The Development Analysis is not submitted to the Credit Review Board for approval, however it is included in the Action Memorandum for reference purposes. Also, as part of its portfolio management role, the ODC may request progress updates on strategic objectives accomplished as a result of DCA projects. An example of an appropriate Development Analysis is provided as Appendix III.B.

Economic Viability Analysis

The Economic Viability Analysis, which universally applies to all DCA credit products, is the assessment of an activity's impact on the host country's economy. In essence, this analysis justifies the utilization of the DCA guarantee in light of relevant economic and market factors in the context of this proposed activity.

Three specific points should be addressed in the Economic Viability Analysis:

1	The activity will address in-country **market imperfections**
2	The DCA credit instrument **will not supersede private sources of financing**
3	USAID is a **guarantor/lender of last resort** in such a way that the activity would not be possible without DCA

In-country Market Imperfections

This component of the Economic Viability Analysis addresses the overall conditions of the sector impacted by the potential DCA activity. The term 'market imperfections' implies that the supply generated by market participants is insufficient to meet the demands of market customers. The example provided in Appendix III.C involves a DCA guarantee for the energy sector in Brazil. In this case, USAID/Brazil researched significant evidence to demonstrate how the demand for electricity significantly outweighed available supply from public and private sector electricity generation and distribution.

Market imperfections may also refer to specific barriers that discourage or prevent the entry of new approaches, e.g., renewable energy, microenterprises, and municipal infrastructure, into an existing market scheme. A common manifestation of these barriers is limited access to capital, represented by a banking sector's unwillingness to lend to a new approach or a new sector. This unwillingness often stems from a lack of historical references for repayment abilities. In this regard, the Economic Viability Analysis should address how the DCA credit instrument will overcome these barriers, which currently limit market-based lending to the proposed project/sector.

Not Superseding Private Sector Financing

The DCA credit product should not displace the demand for capital and debt financing that could be fulfilled from private sector resources. This can be justified by confirming that the overall commercial banking sector is unwilling or extremely hesitant to lend funds to a particular sector and/or borrower.

Furthermore, the Economic Viability Analysis can indicate if the banking sector charges exorbitant interest rates or requests excessive collateral due to the perception of high risk towards this sector. The Economic Viability Analysis highlights how the use of DCA extends credit to a project based on its actual risks, not its perceived risks. In this sense, DCA intends to be a catalyst, providing demonstration effects, to more properly align the host country financial sector's perception of risk with actual project risks in a certain sector.

Guarantor of Last Resort[11]
Discussions with financial institution representatives related to a DCA proposal should confirm that the DCA guarantee provides an increased level of confidence from their perspective to facilitate the credit to the project. Without the DCA guarantee, financial institutions would be unwilling to lend to the borrower. In other words, the Economic Viability Analysis must provide evidence that the involved or identified financial institution(s) would not extend credit to the activity if it were not for the DCA guarantee. In the case of a portable guarantee, the potential borrower should confirm that DCA will be the unique factor to enable the project/sector to benefit from fair, market-based debt financing.

The Appendix III.C example provides additional support by revealing Brazilian banks' hesitancy to lend to long-term capital projects. The DCA guarantee is perceived as necessary in order to overcome this hesitancy in light of "the absence of a competitive banking industry and other guarantee facilities."

Financial Viability Analysis

The Financial Viability Analysis determines whether the proposed activity will yield a positive financial rate of return. In other words, it will assess the ability of the borrower to meet its monetary obligations and service the debt related to the activity. USAID will only provide credit assistance if the proposed activity generates adequate cash flow to service current and proposed debt. An activity that is not financially sound will not be funded under DCA since the borrowing entity may not be able to meet its financial obligations, including loan principal and interest payments.

Calculating financial viability involves determining the estimated sources and uses of cash required by the activity for successful operations. Viable activities are characterized by sufficient projected cash inflows to pay for planned expenditures. Once the cost and revenue streams have been estimated for the life of the activity, the outflows and inflows are compared to determine whether the proposed activity generates adequate cash to meet anticipated expenditures.

The first step of a Financial Viability Analysis is the forecasting of cash flows.

Single Borrower (e.g., Loan Guarantee). In the case of guarantees provided for a single project, i.e. loan guarantees, portable guarantees, and some bond guarantees, future cash flows reflect the operating revenues and expenditures relevant to a particular project. If a private sector business or municipal corporation is involved, the Mission should collect or assist in obtaining three years of audited financial statements, as well as forecasted balance sheets, income statements and cash flows statements. Based on ODC guidance and assistance, the Mission should review these forecasts for realistic assumptions in comparison to audited historical figures for the entity.

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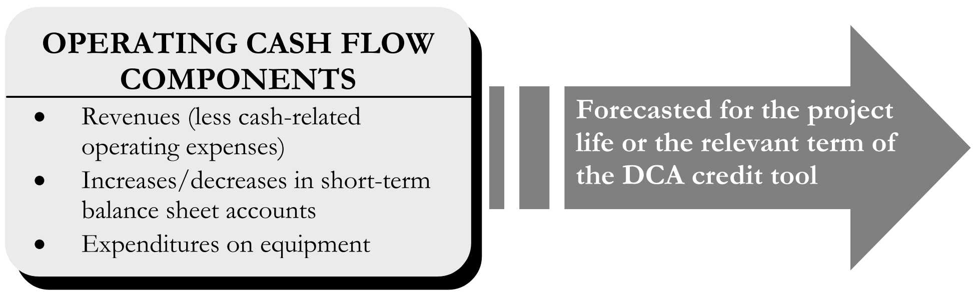
11 "Lender of Last Resort" in the case of a direct loan.

Multiple Borrowers (e.g., Loan Portfolio Guarantees). For a loan portfolio guarantee or a bond guarantee supporting many different projects, the Mission should provide forecasted cash flows for at least two representative projects that will receive funding guaranteed by DCA. Alternatively, if representative projects are not appropriate or applicable, e.g. mortgage-based lending, notional cash flows should be produced. All forecasts should be checked thoroughly to ensure that conservative and realistic assumptions are utilized, especially in terms of 1.) the base level (i.e. Year 0 or Year 1) and 2.) the projected growth of revenues and expenses.

The following diagram shows a simplified overview of how the Mission, with ODC guidance, should perceive cash flows for the Financial Viability Analysis. "Operating Cash Flow" is the key figure that should be compared with financing costs, i.e. the existing and future principal and interest costs for loans/bonds. Further details and more comprehensive explanations of cash flows are provided in Appendix III.D.



With the forecasted cash flows as a basis, the Mission should calculate two indicators to complete a Financial Viability Analysis: the Net Present Value and the Internal Rate of Return.[12]

1	**Net Present Value (NPV)**: DCA projects must demonstrate a positive NPV, which is the present value of all cash outflows (investments) and inflows (returns) of a project at a given interest (discount) rate. Since the streams of expenditures and receipts occur over a period of time, they are discounted to account for the time 'value of money',[13] using the market interest rate or the financial cost of capital to the borrowing entity. When conducting a NPV analysis, the selection criterion is to accept DCA activities with a NPV greater than zero.
2	**Internal Rate of Return (IRR)**: Another measure of financial viability is the IRR. IRR is the interest (or discount) rate at which the present value of an investment in a project is zero. When this IRR exceeds the prevailing interest rate, the project is deemed to be an attractive investment.

Lastly, the NPV and IRR analyses should include projections for several scenarios from a 'best case' (i.e. revenues exceed expectations and/or costs are below expectations) to a 'worst case' (i.e. revenues do not meet expectations and actual costs are higher than forecasted costs). The parameters of the scenarios should range from 5-10 percent of the forecasted revenue and expense data. This **sensitivity analysis** is fundamental to assess the viability of the project in case the forecasted cash flows do not accurately predict how the actual operations will occur.

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12 Technically, the IRR and NPV analysis will provide the same answer regarding a project's financial viability. For calculation assistance, IRR and NPV are built-in financial functions to most spreadsheet software programs, such as Microsoft Excel.

13 The basic premise of the 'time value of money' is that a dollar today is worth more than a dollar tomorrow due to the interest earned on today's dollar. Data should be considered in nominal terms, which include inflation.

An example of a Financial Viability Analysis is provided as Appendix III.D. The format of this example, which highlights cash flows from operations, investments and financing, provides much more detail than the generic diagram on the previous page. However, the cash flows analyzed represent the same overall approach. Also, Appendix III.D provides an outline of the typical components of this analysis.

If the Mission needs assistance with this analysis, it should contact the ODC. This will most likely be necessary in the case of project or bond financing. Please consult with the ODC for guidance from the initial stage of these DCA project types.

Regardless of the level of ODC support, the Mission will lead efforts to gather information commonly required for DCA supported projects. In the case of a project-specific DCA structure, required inputs for the Financial Viability Analysis will include:

- Project start-up costs
- Future income generated by the project
- Estimated operating and maintenance costs
- Local interest rates (debt servicing costs), tax expenses, etc.

As stated previously, for a portfolio guarantee, illustrative examples of a few borrowers or notional cash flows will be necessary to demonstrate a model for how the debt will be repaid. This model should contain data inputs as just listed for project-specific structures.

If the borrower is an existing organization, the Mission should, at a minimum, collect audited financial statements from the last three years, as well as any forecasts the entity has prepared for the near term future. These documents should include:

- Balance Sheet (assets, liabilities and equity components)
- Income Statement (revenues, operating expenses, financing expenses, net income)
- Cash Flow Statement (cash flows from operations, from investing, and from financing)
- Sources and Uses of Funds

Regardless of the level of ODC involvement, the Mission will submit the Financial Viability Analysis to the ODC for final review and approval.

Financial Monitoring Plan

With oversight from the Office of Development Credit, the Mission must demonstrate that they have the capacity and necessary resources to ensure careful monitoring of a DCA activity. As part of the approval process, the Credit Review Board will examine the Financial Monitoring Plan to ensure that the Mission and the ODC will adequately respond to problematic issues as they arise related to borrowers and or lenders involved in a DCA transaction. The typical components of a Financial Monitoring Plan include:

- Designation of Mission staff member(s) responsible for follow-up on the timely collection of reports and communications with the ODC. Staff members can include direct hires, host country nationals and contracted staff.

- Specific collection activity requirements and time horizons (e.g., semiannual or quarterly communications with the ODC to verify reporting and fee compliance, as well as utilization data; and biennial (once every two years) site visits by the Mission and ODC.
- Schedule/calendar of activity deadlines.
- Annual estimates of administrative costs for monitoring activities. This is calculated by converting the time forecasted for the allocations of staff member(s)' time by the relevant salaries of this personnel.

More information related to monitoring is provided in the Project Monitoring section of this Manual. Also, a sample Financial Monitoring Plan is included as Appendix III.E.

Fees Justification

Appendix III.F provides a sample of the brief (1-2 pages) Fees Justification that is currently required as a DCA Action Memorandum attachment. This example demonstrates how the Mission, in conjunction with the ODC, determined the commitment (origination) and utilization fee percentages. As highlighted in the 'Common Attributes of DCA Products' section of this Manual, both of these fees have a minimum limit of 0.25%. Appendix III.F also presents a section of the ADS to further explain the factors that affect a fee structure and the possible exceptions to DCA fee standards.

CREDIT RISK ASSESSMENT

The ODC will coordinate with the Mission when and how the credit risk assessment will be conducted following significant activities completed in the 'Detailed Project Development' phase (see previous section).

The risk assessment is an analysis performed on the country, lender, borrower, and structure of a credit activity to evaluate the creditworthiness of a particular DCA credit transaction. The analysis determines the probability of adverse outcomes, or default – the higher the level of risk, the greater the probability of negative cash flows and resulting loss to the U.S. Government. The expected cost to the U.S. Government of a credit transaction is called a ***subsidy***. For all credit activities, USAID sets aside a subsidy, which acts as a loss reserve, in a holding account for the duration of the specific deal. The subsidy is the net present value of all credit-related cash outflows and inflows to the U.S. Government.

Notwithstanding the availability of ratings from a noteworthy credit rating agency, credit risk will be assessed and scored according to guidelines of the *USAID Credit Risk Assessment Handbook*. This document details the steps to follow for a risk assessment. For more information on the credit risk assessment, contact the Credit Supervisory Officer at the USAID Office of Development Credit.

Although the ODC performs the risk assessment, the Mission and participating institutions in a DCA transaction support this aspect of project development with information research and collection. Although this information gathering will vary depending on the credit activity, it typically includes: audited financial statements for 3-5 years, business/strategic planning documents, CVs of key personnel, financial projections, human resources information, policies/procedures, organization charts, etc. Based on these inputs, the ODC staff and/or contractors will conduct the risk assessment to ensure an independent analysis of project risk related to the possible outflow of U.S. Government funds.

A brief overview of factors assessed in a DCA risk assessment are summarized as follows:

- **Country Risk**: Country risk, which typically accounts for 40 percent of the risk assessment, is determined by a rating system used throughout the U.S. Government. This system, the Inter-Agency Country Risk Assessment System (ICRAS), takes into account such factors as foreign exchange conditions, banking and legal systems and the overall business climate.
- **Borrower Risk**: Borrower risk, normally 20 to 40 percent of the risk evaluation, measures the ability of the borrower to pay back the lender. Although the risk components vary with the type of borrower and the nature of the transaction, common factors to analyze include both borrower-specific factors, such as financial strength and management quality, and external factors, such as industry, market and regulatory environment. The *USAID Credit Risk Assessment Handbook* outlines how to assess borrower risk for six types of entities: private sector business, financial institution, microfinance institution, private voluntary organization, and a utility/infrastructure project financing and general obligation structure.
- **Lender Risk** (for guarantees only): Lender risk, also accounts for 20 to 40 percent of the risk score, and it assesses the lending institution's experience and ability to originate and monitor loans. If a typical commercial banking institution is the lender, USAID utilizes a widely accepted "CAMELS" analysis to evaluate the bank's **C**apital adequacy, **A**sset quality, **M**anagement, **E**arnings, **L**iquidity, and **S**ensitivity to market factors.
- **Transaction Risk**: Representing 5 to 20 percent of the risk score, the transaction risk component considers factors related to the deal structure, such as collateral, escrow accounts, third-party guarantees, and the diversification of risk with a portfolio of dissimilar borrowers.

Based on the risk assessment, the ODC finalizes the subsidy cost of the DCA transaction, which is included in the action memorandum to be reviewed by the USAID Credit Review Board (CRB) and approved by the USAID Chief Financial Officer (CFO).

PREPARATION OF ACTION MEMORANDUM

The Action Memorandum serves as the key documentation vehicle for the DCA activity in the project development phase. Following is an outline for the document:

ACTION MEMORANDUM

To: **USAID CFO**
Through **Credit Review Board**
From: **Mission Director**
Date: **XXX**
Subject: **[Loan, Portfolio, Bond, etc.] DCA Guarantee**
Project Name

Attachments:
(1) Development Analysis
(2) Economic Viability Analysis
(3) Financial Viability Analysis
(4) Risk Assessment
(5) Financial Monitoring Plan
(6) Fee Justification
(7) Subsidy Calculation

ACTION REQUESTED: (a) To evaluate the appropriateness of DCA credit assistance as a financial tool to support the Strategic Objectives (SO) of USAID/[country] relating to [description of SO] and (b) to approve the subsidy cost for the proposed activity.

SUMMARY: Concise synopsis of pertinent facts related to the proposed project.

DESCRIPTION OF THE PROPOSED PROJECT ACTIVITY: Short summary of background of the project and the attachments listed above. In addition, a table detailing the terms of the agreement should be included as shown below:

Structure of the Guarantee (Credit Terms)

Guaranteed Parties	**[Name of financial institution]**
Type of Guarantee	**[Bond, loan, loan portfolio] Guarantee**
Authorized Amount	**[Foreign currency] equivalent of US$XXX**
Guarantee Ceiling	**US$XXX**
Level of Guarantee Coverage	**XX%**
Term	**XX years**
Fees: Origination Utilization	 **XX% of guaranteed amount** **XX% of guaranteed amount**
Currency	**[Foreign currency]**

RECOMMENDATION: That you approve this request to utilize $XXX from the FYXXXX DCA appropriation to support the DCA credit instrument as described above.

(signatures)
Approved: ____________________________
Disapproved: ____________________________
Date: ____________________________

CLEARANCE PAGE FOR ACTION MEMORANDUM requesting approval of DCA credit subsidy calculation and authorization to provide a DCA loan portfolio guarantee.

CREDIT REVIEW BOARD (CRB) & CHIEF FINANCIAL OFFICER (CFO) APPROVAL

Prior to submission of the Action Memorandum to the CRB for review, the Office of Development Credit will review the document and work with the Mission to finalize its contents, including the subsidy calculations.

The CRB will evaluate the entire proposed DCA activity to ensure that:

- The activity is financially viable
- The activity is economically viable
- The risk assessment and subsidy calculation are correct
- The Mission is prepared to financially monitor this activity based on staff time and expense estimates

Based on the CRB review, the ODC may request that the Mission perform further activity development. Otherwise, the CRB will recommend the subsidy cost calculation to the CFO for approval.

The CFO, upon a positive recommendation from the CRB, reviews and approves the subsidy cost calculation, and verifies that the allocated transfer authority is within the existing ceiling. The CFO notifies the ODC immediately of the outcome, which in turn notifies the Mission.

CONGRESSIONAL NOTIFICATION & FUNDING TRANSFER

The Mission then decides to continue with DCA activity based on CFO approval of the Action Memorandum. If approved, the Mission prepares a Congressional Notification (CN), submits it to its Regional Bureau, which then reviews and sends the document to USAID Bureau of Legislative and Public Affairs for submittal to the U.S. Congress. A CN example is provided as Appendix III.G.

Once the 15-day CN waiting period has expired without Congressional objection, the Mission Controller or Program Officer requests that the regional bureau controller or program officer transfer an appropriate amount of Mission funds from the Development Assistance (DA) account or Economic Support Fund (ESF) to the DCA Account.

Generally, the transfer of funds to the DCA Account follows these steps:

- The Bureau of Policy, Program and Coordination (PPC) makes an appropriate reduction of the funds allowed to the Mission, thus regaining USAID/Washington's control of the necessary funds.
- PPC in conjunction with the Regional Bureau sends a request to the U.S. Office of Management and Budget (OMB) and Treasury to reduce the budget authority level in the relevant appropriation account, and to increase, by the commensurate amount, the budget authority level of the DCA Account.
- OMB makes the apportionment of DCA Account budget authority to USAID.

- In conjunction with the Office of Financial Management,[14] PPC makes an allowance of the DCA budget authority to the Regional Bureau.
- The Regional Bureau sends an email regarding the allowance of the funds to the Mission. The email provides a funding citation to enable the Mission Controller to enter the funding in the Mission accounting system.

At this point, the transfer has been executed and the funds are back under the control of the Mission. The Mission Controller can now certify the availability of sufficient DCA budget authority to permit the legal obligation.

PROJECT AGREEMENTS SIGNED & FINANCIAL CLOSING

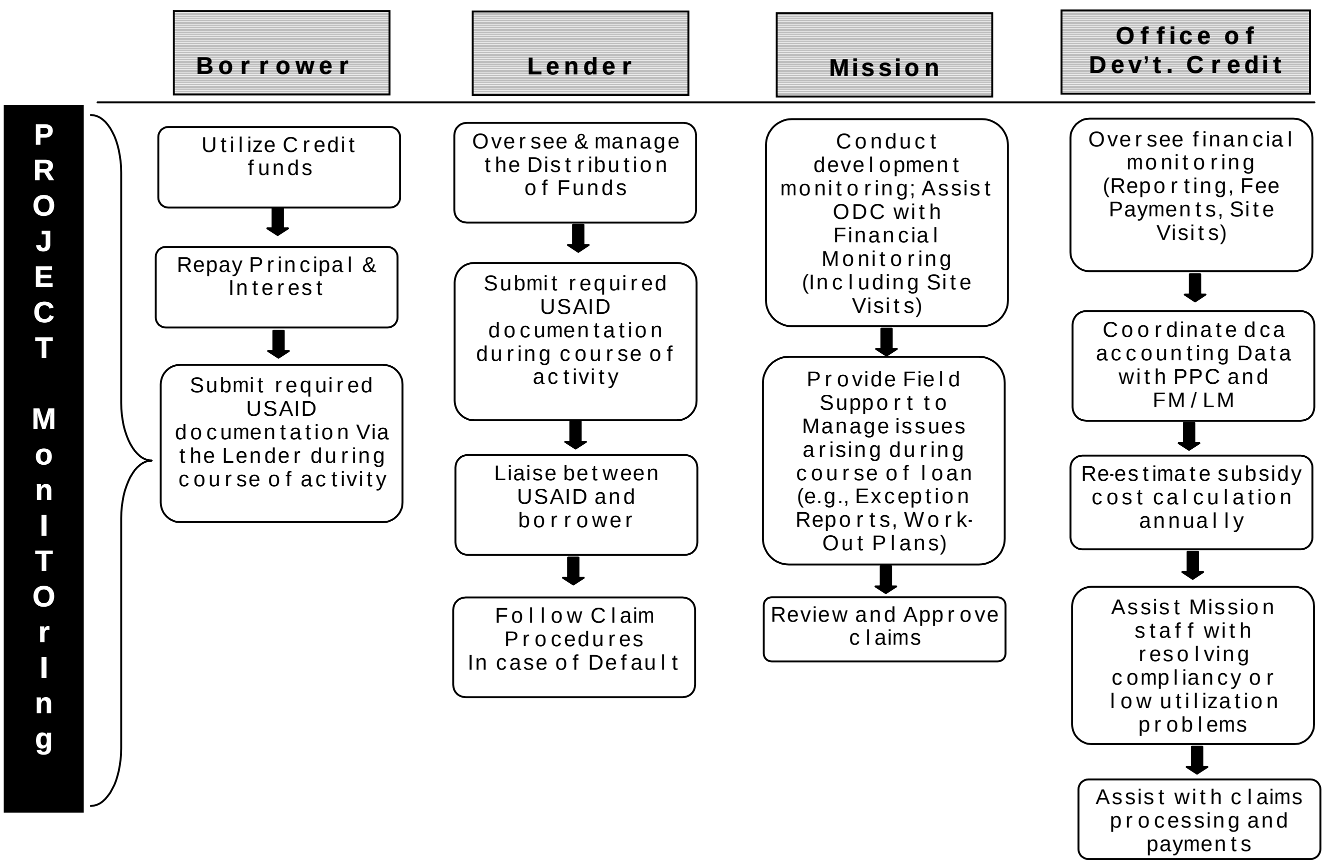
Borrowers and/or lenders will then sign the loan, or loan guarantee, agreement(s). The General Counsel's Office and its Regional Legal Advisors (RLAs) will coordinate the drafting of these legal documents. Missions should consult their RLAs throughout the development, negotiation, and implementation of a DCA project. The Mission obligates the funds immediately after financial closing and notifies the Office of Development Credit that the subsidy is obligated by email/facsimile and by sending a copy of the signed obligating document. ODC then provides a signed copy of this document to FM/LM. The DCA activity implementation and monitoring then begins.

[14] Specifically, the Office of Financial Management, Central Accounting and Reporting Division, Funds Control.

Project Monitoring

The following chart summarizes the main activities of DCA Project Monitoring from the perspective of the four entities listed in Project Development. The Office of Development Credit is the principal entity responsible for financial monitoring of all DCA projects with the Mission playing a secondary role. The financial monitoring role is supplemented by two other USAID entities:

- **Bureau of Policy and Program Coordination**: to track and monitor DCA accounts.
- **Office of Financial Management/Loan Management**: to perform all fee billing and collection activities and to disburse claim payments following approval from Missions. These responsibilities are currently coordinated with its Financial Agent contractor.



BACKGROUND

Monitoring is an integral aspect of the DCA process to insure that both the developmental and financial objectives of a given activity are in line with the standards established by the DCA. Developmental monitoring is inherent in the framework of the annual report, formerly known as the R4, monitoring process. [15] As a result, there are no further requirements from the perspective of the Office of Development Credit pertaining to the measurement of progress toward development goals. Furthermore, this is the Mission's responsibility. Financial monitoring, in contrast, is essential to overall DCA portfolio management, and therefore, the relevant project monitoring activities are outlined in this section.

These activities are necessary to minimize the financial risk to the U.S. Government associated with providing loans and guarantees. The data collected in the financial monitoring process are used to:

- Assess and manage risk exposure;
- Ensure compliance to the Guarantee Agreement by the participating financial institutions (FIs);[16]
- Calculate and invoice utilization fees; and
- Budget adequate funds for claims payments.

PROJECT MONITORING RESPONSIBILITY OVERVIEW

Similar to the previous Project Development section, project monitoring responsibilities are divided among several key entities.

ODC	The **Office of Development Credit** coordinates project monitoring as portfolio manager for all DCA projects. This primary responsibility includes the following: 1.) Ensure receipt of necessary reports from the FI, 2.) Request follow-up assistance from the Mission to resolve late reporting or compliance issues, 3.) Forward the necessary utilization data to FM/LM for fee processing, 4.) Prepare monthly and quarterly portfolio status reports, and 5.) Assists with claims processing and payments.
Mission	The **Mission** adheres to the Financial Monitoring Plan prepared during the Project Development process, which primarily involves field support to the ODC for follow-up communications and periodic site visits to the FI. The Mission may also initiate the 'Early Warning System' in case it becomes aware of potential problems in credit activities. The Mission's monitoring role also includes pursuing delinquent reporting and payments, as well as approving and processing claim payments following ODC review. In general, the Mission provides monitoring support as required by the Office of Development Credit in resolving compliance and reporting issues.
FM/LM	**FM/LM and its Financial Agent** provide necessary financial management reports related to outstanding balances, cash disbursements and receivables to help monitor DCA activities. FM/LM is responsible to bill (i.e. produce Notice of Payment Due), collect DCA fees, issue the first late notice to a borrower/lender,[17] and produce weekly exception reports.

15 R4 (Results Review & Resource Request) is the annual planning document that each USAID office is required to develop for budgetary and performance review purposes.

16 Financial Institution (FI) will be the generic term used in this section of the Manual. It represents 'lenders' in the case of a typical DCA guarantee, and 'borrowers' in the case of DCA direct loans.

17 A demand for an overdue payment is also referred to as a "dunning notice".

PPC/B	**PPC/B** tracks and monitors the DCA program and financing accounts. PPC/B also coordinates Congressional Notifications with the Regional Bureaus and the DCA budget allowances with OMB, as well as participates in the annual budgeting exercise.
CRB	The **Credit Review Board** reviews and approves work-out plans with assistance from the ODC. (Work-out plans attempt to decrease the likelihood of default by restructuring the credit repayment schedule.)
GC	The **General Counsel** assists the CRB with work-out plans in case of potential default situations.

ODC / MISSION MONITORING RESPONSIBILITIES

The Office of Development Credit and the Mission are presented concurrently because often their monitoring responsibilities overlap. In most cases, the ODC will take a lead role, with the Mission in a supporting role, to manage: FI report assessments, compliance reviews, fee payment follow-up, performance measurement, claim reviews, subsidy re-estimates and de-obligations, and project close-out.

Collection and Review of FI Reports

As stipulated in the Guarantee Agreement, the FI will submit either quarterly or semiannual reports in duplicate to the ODC and the Mission. These reports will predominantly focus on financial data, but the Mission should also consider including development-related measures to assess the impact of this DCA activity on its strategic objectives. The financial data collected will be utilized to monitor credit risk, calculate utilization fees due from the FI, and update USAID financial records.

As previously described in the DCA Products section of this Manual, the structure of these quarterly or semiannual reports depends on the DCA product. In the case of loan portfolio guarantees (LPGs) and wholesale guarantees, the FI will submit the following reports:

- **Qualifying Loan Schedule (QLS):** [18] A QLS is a list of loans placed under coverage, which show the borrower's name, original loan amount, date, maturity, and outstanding principal balance as of the end of that particular period. Review of the QLS should insure that balances from the preceding and current period comply with the Guarantee Agreement, i.e. if the DCA guarantee only covers loan principal, the outstanding balance should not increase from one period to the next. See Appendix IV.A for a QLS template.
- **Transaction Reports (TR)**: The FI may also be required to submit a Transaction Report for every new loan placed under coverage. The TR allows the ODC/Mission the ability to review and approve loan details (e.g., type of business, assets and annual sales of borrower, purpose of loan) submitted by the financial institution to verify compliance with the intended purpose of the guarantee.
- **Certification Letter**: To be submitted along with other required reports, signed by an official of the organization to validate the reported information.

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18 The ODC web site maintains a PDF version of the application for the USAID Micro and Small Enterprise Development (MSED) guarantee program at http://www.usaid.gov/economic_growth/egad/ci/port_guar_app.pdf. Templates for the QLS, TR, and legal agreements are included in this document. MSED is a predecessor USAID credit program to DCA. It provides guarantees to microfinance institutions, and its current deals will expire by 2006.

The report for a loan guarantee, bond guarantee, or portable guarantee will typically involve verification that actual loan or bond payment installments adhere to the original repayment, or amortization schedule. This verification is typically required semiannually. Similar to the LPG, the FI will be required to submit a signed Certification Letter to validate the reported data.

After receiving the FI's report, the ODC will advise the Mission to resolve any unclear information and/or discrepancies identified in the reports. This resolution process can either be in written or verbal communications, however the Mission should clearly document and record all letters, faxes, emails, and telephone calls. As required, the ODC will provide guidance on how to resolve these issues based on its historical experience with the MSED program.

Fee Collections

After the DCA Guarantee Agreement is authorized by USAID and the participating FI, the ODC will forward a copy of the signed Agreement to FM/LM to process the billing of the **origination fee**. If the Mission receives this payment, or any future utilization payments, it will forward proof of payment to the ODC, which will then inform FM/LM.

The ODC will provide a copy of the reviewed and compliant FI quarterly or semiannual report to FM/LM to process for the billing of the **utilization fee**. The data relevant for processing the utilization fee payment are the accurate outstanding balances on the loan(s)/bond(s).

If the FI is more than ten days late in paying its fees, FM/LM is responsible for sending the first "dunning notice". Following that initial notice, the Mission, with ODC guidance, will generate dunning notices for any payments delinquent at 30, 60, 90 and 120 days past due. All notification activities should be documented, including all written or oral correspondence. ODC will inform FM/LM of all collection attempts, and will request that the Mission draft an Exception Report, as described in the subsequent section of this Manual.

If the settling of prolonged delinquent payments extends beyond 180 days, and its value is considered significant compared to the cost of payment pursuit, ODC will direct the Mission to structure a work-out plan with assistance from the General Counsel. In the event the work-out plan is not feasible, ODC will assist the Mission with a termination plan within 180 days.

Performance Measures

ODC will be responsible for tracking the following performance measures as categorized as follows:

- Financial Tracking
- Timeliness
- Risk Exposure

Financial Tracking

- **Current Utilization** = Current Outstanding Principal as a % of the Maximum Covered Portfolio.
- **Cumulative Utilization** = Cumulative Credit Provided as a % of the Maximum Covered Portfolio

These measures should be analyzed in two different *product line categories* – Loan Portfolio Guarantees (LPGs) and Loan Guarantees, which will include all portable, wholesale and bond guarantees. LPG balances will increase and decrease depending on new sub-loans and the expiration of old sub-loans under guarantee coverage. In contrast, loan guarantees will typically begin with the full amount of outstanding principal and gradually decline over time as the borrower pays back the loan or bond.

Timeliness

- **Fee Payment Timeliness** = Number of days between a fee 'due date' and 'pay date'.
- **Reporting Timeliness** = Number of days between 'due date' and 'received date' for required reports, i.e. QLSs.
- **Claims Processing Timeliness** = Number of days between 'date claim submitted' and 'claim pay date'. This would serve as an internal measure to assess the responsiveness of USAID in honoring its guarantee coverage in a timely manner.

Risk Exposure

- **Current Risk**: Cash Inflows – Cash Outflows as a % of Subsidy
  - Cash Inflows = Fees Received
  - Cash Outflows = Claims, net of recoveries
  - Subsidy = net present value of claims less fees
- **Pending Risk**: (Current Risk and Potential Cash Outflows) as a % of Subsidy
  - Potential Cash Outflows = probable claims (loans with outstanding balances that have not declined for four consecutive periods and loans that have been submitted for claims processing)

Every six months, ODC should review the following checklist of activities for each DCA project. All 'triggers' on this checklist should result in a phone call or e-mail from the ODC to the appropriate Mission contact person to request follow-up with the participating FI. The same checklist will assist the Mission contacts in their responsibilities for DCA monitoring. In this manner, the Mission representatives would communicate with DCA participants without necessarily waiting for a communication from the ODC.

☑	*Monitoring Checklist*
☐	If the guarantee agreement was finalized more than six months ago, and utilization has yet to be reported – i.e. current utilization is 0%.
☐	(LPG only) Current utilization is below 20%.
☐	Outstanding fees exceed 30 days in arrears.
☐	Required reports have not been received by 45 days from the end of the reporting period.
☐	If a claim report has been submitted, status of claim payment. If 'date claim submitted' is more than 30 days from the current date, the Relationship Manager should work with Monitoring Analyst and FM/LM to check status.
☐	'Current Risk' exceeds 50%, i.e. net cash flow is more than half the subsidy estimate.
☐	'Pending Risk' exceeds 75%, i.e. net cash flows plus potential claims are more than 75% of the subsidy estimate.

As utilization, fee payment, reporting, and claim data are received and processed by the ODC, reports will be produced to analyze performance in these categories with regional breakdowns as well as the identification of 'best' and 'worst' performance across regions.

Exception Reports – Early Warning System

In case of delinquent reporting or fee payments, ODC will request that the Mission send a Delinquency Notice (Appendix IV.D) to the FI. In case there is no response to the written notice from the FI within two weeks, the Mission will follow-up with a telephone call and/or site-visit to assess the situation. The Mission will inform ODC of its assessment, and if these follow-up activities to the late reporting lead to the discovery of increased credit risk, ODC will advise the Mission to create an Exception Report (Appendix IV.C). The Exception Report should detail the nature of the issue, collection efforts, and resolution strategy. This should be filed for any delinquent payments of 30 days or more and should continue to be filed for each month that delinquent receivables persists.

Also, if the Mission receives news of an unusual event (pending bankruptcy, management changes, etc.) or external factors, such as signals of a pending economic or political crisis, which would alter the credit risk of the DCA project, the Mission will submit an Exception Report to ODC. The ODC will always forward copies of Exception Reports to FM/LM and PPC.

The following diagram on the next page summarizes a step-by-step process of handling potential problems related to DCA project monitoring. The key trigger for this process is a delay in fee payment by the FI. However, there are several factors that the ODC/Mission should monitor that may also trigger the implementation of this warning system:

- Significant delays in FI reporting
- Change in financial soundness of the FI
- Decline in local economic conditions
- Significant depreciation in foreign exchange rate (if applicable)

Early Warning System Diagram

Time: 10 days
Event: Fee payment overdue
Action: FM/LM sends first dunning notice; informs Mission/ODC

Time: 30 days
Event: Fee still not paid; or required reports from FI not received
Action: Mission, with ODC guidance, contacts FI. Mission also completes first Exception Report and submits to ODC.

Time: 60 days
Event: No resolution since previous event
Action: ODC/Mission contact FI again in an attempt to resolve problem (documentation of all contact is important). ODC/Mission completes second Exception Report and submits to CRB.

Time: 90 days
Event: No resolution since previous event
Action: ODC/Mission contact Regional Legal Advisor (or General Counsel through ODC) to discuss termination options. ODC/Mission submit third exception report. In the case of a direct loan, ODC works with General Counsel to develop work-out plan.

Time: 180 days
Event: No resolution since previous event
Action: ODC/Mission terminate guarantee. In the case of direct loans, ODC and General Counsel finalize work-out plan and submit to the CRB for approval, while considering the material value of payables to USAID in comparison to collection costs.

Subsidy Re-estimates

The Guarantee Agreement will specify that the FI must submit annual audited statements in duplicate to the ODC and the Mission. If there is a delay in receiving these reports three months following the end of the FI's fiscal year, the ODC will contact the Mission to follow-up with the FI to collect its annual statements. These audited accounts are necessary for the ODC to review and possibly revise subsidy cost estimates. As stated previously, any changes in the subsidy cost will not affect Mission funds.

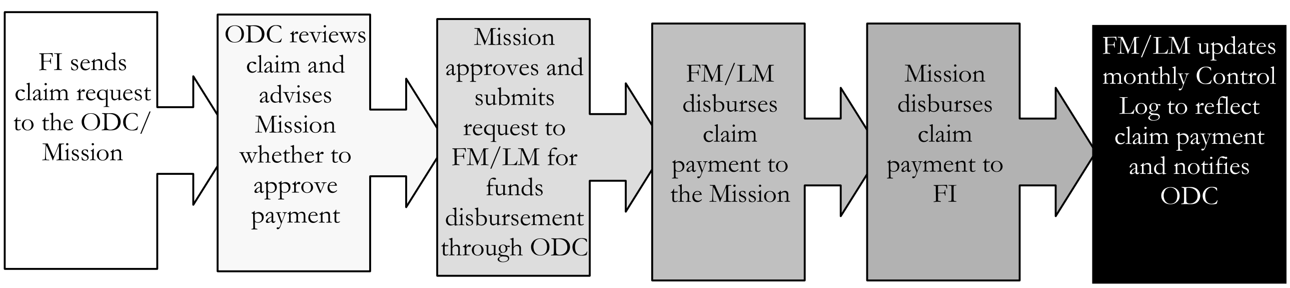
Premature Subsidy De-obligations

Once the subsidy cost is obligated, i.e. transferred to the DCA Program Account, it can be de-obligated if the underlying credit instruments are never enacted or utilization is minimal. The long-standing USAID rule is that when a Mission de-obligates funds, the funds belong to PPC. In consultation with the Regional Bureau and the Administrator, PPC will respond to immediate and changing needs. In some instances, the office de-obligating the funds will receive 50% of the money back. More specific stipulations are as follows

- For DCA obligations through 2000, de-obligations will remain in the DCA Account until expended (i.e., as no-year money) unless the Mission actively seeks to have the funds returned to their original character. Post FY2000, de-obligations of DCA funds “shall remain available until expended if such funds are initially obligated before the expiration of their respective periods of availability."
- The de-obligated funds that remain in the DCA account belong to the Agency and will be treated/disbursed in the same way that de-obligated grant funds are disbursed. For example, when the Administrator does a sweep of de-obligations for a specific immediate need, the Administrator could order that the DCA subsidy from the de-obligations be held for DCA projects related to the immediate need.

Claim Payments

The following diagram depicts the major steps in the review and approval process of claim payments. The Mission and the ODC will ***only*** take actions on claim payments if the FI is current on all reporting and fee payments.



Post-Claim Recoveries Collection

In coordination with the ODC, the Mission will send out annual notifications to all current and former lenders that have submitted a claim payment. This notification will remind FIs that they are legally obliged to share any recoveries, received on loans that have previously been written-off, with USAID. The reminder notification will cite:

- Guarantee number
- Each claimed sub-loan
- Local currency and dollar amounts of each claim
- Date of each claim
- Recoveries shared with USAID

FM/LM RESPONSIBILITIES

In addition to the supporting roles identified in the previous section of ODC/Mission responsibilities, FM/LM, and its Financial Agent, perform the following responsibilities in the monitoring process:

1. Billing functions for DCA activities.
    - Generate bills for origination and utilization fees in accordance with the outstanding principal guaranteed amount for guarantees or in accordance with the amortization tables in the case of a direct loan as provided by the Mission. See Appendix IV.B for a sample form of a Notice of Payment Due.
    - Provide copies of the Notice of Payment Due to the ODC/Mission
    - Send first dunning notice, ten days past due, to the FI if a payment is late.
    - Calculate all late fees and penalty charges and bill accordingly.
    - Receive U.S. dollar payments from FIs by way of electronic funds transfer via the New York Federal Reserve to the USAID account at the U.S. Treasury Department (preferred); or receive foreign currency payments from the Controller of the Mission should the FI pay by SWIFT wire transfer/check directly to the Mission.
    - Maintain a complete listing of receivables and send electronically to the Mission to assist in collection efforts and to the ODC for DCA portfolio management. FM/LM will also ensure this data is included in the USAID Standard General Ledger.
    - Determine discrepancies between billed and paid amounts and generate revised Notice of Payments due with the appropriate explanation in a cover memorandum.

2. Preparation and distribution of weekly exception reports for distribution to the ODC and the Missions (late fees and QLS reports).

3. Distribution of "Control Logs", financial management reports, to Missions and the ODC.
    - For transactions requiring immediate attention by the Mission or the ODC, e.g., delinquent payments, FM/LM will prepare weekly exception reports for ODC and the Missions.
    - The monthly Control Log reports will list data by facility or transaction. Data elements for the Control Log will include:
        - Loan and guarantee transactions
        - Total amount of loans and guarantees (i.e. authorized amounts) and current outstanding balances
        - Principal and interest receipts (quarterly and cumulative to date)
        - Facility fee and utilization fee outstanding and collected, to date
        - Claim payments made to date
        - Un-disbursed balances

4. Disbursement of funds (see "Claim Payments" diagram in previous section.)

PROJECT CLOSE-OUT

Six months prior to the expiration of a guarantee or direct loan, the ODC/Mission will notify the FI of the facility expiration. The notification will include the date of termination and reference to termination requirements in the standard terms and conditions of the legal agreement. ODC will send a copy of this expiration notice to FM/LM.

Final Reports/Fees

The ODC/Mission will monitor the collection of final reports and fee payments, especially in regards to processing reports and follow-up on the final NPD from FM/LM. FM/LM will notify the ODC/Mission after the final utilization fee payment is received.

Claim Payments

The Mission will process claims in accordance with Guarantee Agreement standards, which typically permit the FI to submit claims six months after expiration of the DCA guarantee or loan. However, loan default and the lender's demand for full repayment from the borrower must have occurred prior to the expiration of the guarantee facility. Following claim payments, the FI is legally obligated to share any recoveries with USAID. The Mission must take the initiative to remind the lenders that they are obliged to share these recoveries. (See previous section, "Post Claim Recoveries Collection).

Subsidy De-Obligation

To officially de-obligate the subsidy funds committed to a DCA project, the following steps should be executed:

1. After receipt of expiration notice from ODC, FM/LM updates Control Log to reflect upcoming termination
2. FM/LM sends final bill to FI after receiving final semiannual or quarterly FI report from ODC
3. FM/LM forwards copy of Expiration Notice to ODC within 30 days as a reminder to follow-up with the Mission
4. Mission decides if it will de-obligate any unused credit subsidy and notifies ODC

Loan Write-Offs

In the case of direct loans, USAID has the authority to settle or compromise debts owed to it pursuant to OMB Circular A-129. In addition, OMB Circular A-129 and the Federal Claims Collection Standards provide guidance on this topic and should be consulted when appropriate. The Mission will recommend write-offs after certifying to the CRB that all due-diligence collection efforts have been made. Steps to write-off debts owed to USAID are:

1. Mission requests write-offs to the CRB and the ODC
2. CRB reviews write-off with General Counsel
3. CRB recommends write-off to CFO within 15 days
4. CFO approves write-off of balances deemed 'uncollectible' according to USAID policies
5. CFO notifies FM/LM within 5 days
6. FM/LM records write-offs in subsidiary ledgers

PROJECT EVALUATION

Following project close-out, three levels of DCA project evaluation include:

Mission-level:

- **Development Progress**: DCA activities are subject to the same evaluation requirements as grant funded activities. At the Mission level, such requirements include, but are not limited to, the annual R4 planning process and results tracking.

ODC-level:

- **Financial Soundness**: The financial soundness of the DCA portfolio will be under continuous evaluation using the financial monitoring systems and annual re-estimates outlined in Project Monitoring. In addition, the CRB will review DCA portfolio financial information annually to evaluate the financial soundness of the DCA portfolio and to identify DCA activities that are developing problems that require management attention. A report based on this review will be submitted to the CFO.

PPC-level:

- **Effective Management of Credit Assistance** A special report on the lessons learned from the first generation of DCA activities will be made approximately five years after the first DCA activity is authorized. The USAID Bureau for Policy and Program Coordination (PPC) and its Center for Development Information and Evaluation will coordinate the terms of reference for this report.

Appendix I – List of Acronyms

Acronym	Term
ADS	Automated Directives System
BA	Budget authority
CBO	Congressional Budget Office (Legislative Branch)
CFO	USAID Chief Financial Officer
CN	Congressional Notification
CP	Congressional Presentation
CRB	Credit Review Board
CSO	Credit Supervisory Officer
DCA	Development Credit Authority
EGAT	Bureau for Economic Growth, Agriculture and Trade
EGAT/DC	Office of Development Credit (ODC)
FAA	Foreign Assistance Act of 1961
FCRA	Federal Credit Reform Act of 1990
FI	Financial Institution
GAO	General Accounting Office
GC	Office of the General Counsel
GPRA	Government Performance and Results Act
IOP	Investment Opportunity Proposal
LPA	Bureau for Legislative and Public Affairs
M	Bureau for Management
M/CFO	Chief Financial Officer
M/FM/CAR/FC	Funds Control
M/FM/LM	Office of Financial Management, Loan Management Division
MOV	Maintenance of Value
NGO	Non-Government Organization
NPD	Notice of Payment Due
ODC	Office of Development Credit (same as EGAT/DC)
OMB	Office of Management and Budget (Executive Branch)
OU	Operating Unit
PPC/B	Office of Budget, Bureau of Program and Policy Coordination
PTA	Paying and Transfer Agent
PVO	Private Voluntary Organization
QLS	Qualifying Loan Schedule
RLA	Regional Legal Advisor
SGL	Standard General Ledger
SO	Strategic Objective
SSO	Strategic Support Objective
TN	Technical Notification
TR	Transaction Report

GLOSSARY OF TERMS

Action Memorandum
The "Action Memo" is the key document for a DCA activity design and origination process. The document provides a brief overview of the activity and references the following attachments: development, financial viability, and economic viability analyses; risk assessment; financial monitoring plan; fee justification; and the subsidy cost calculation. The Action Memo serves as a standardized cover letter for presentation to the Credit Review Board.

CAMELS Analysis
A type of credit risk analysis developed by U.S. financial regulatory agencies to evaluate six traditional factors considered to be most important in the operation of a financial institution - Capital adequacy (C); Asset quality (A); Management (M); Earnings (E); Liquidity (L); Sensitivity (S).

Credit Review Board (CRB)
The Credit Review Board (CRB) includes representatives from the USAID credit programs, General Counsel, regional bureaus, and the financial loan management divisions. The CRB recommends the subsidy cost of each proposed DCA activity for the USAID Chief Financial Officer's final approval. The CRB also recommends policies and procedures designed to assure the financial soundness of all USAID credit activities, including DCA.

Development Analysis
Along with the Economic and Financial Viability analyses, DCA projects must be characterized by development objectives aligned with the strategic objectives of a particular USAID Mission / Bureau. This analysis is completed during the project design phase and is included in the initial concept paper and Action Memorandum.

Discounted Cash Flows (DCF)
A financial analysis tool that projects future cash inflows and outflows and considers the time value of money, reducing all future cash flows to their present value based on interest rates for similar transactions.

Economic Viability Analysis
In addition to the Development and Financial Viability Analyses, Economic Viability Analysis indicates that a proposed DCA activity addresses a market imperfection, does not supercede available private financing, and that USAID's financing support role is as a "lender of last resort."

Financial Viability Analysis
The third analysis that a DCA activity must pass (see also Developmental and Economic Viability Analysis) ensures that the activity earns, or is projected to earn, sufficient income to cover operating costs, loan payments, and reserves.

Inter-Agency Country Risk Assessment System (ICRAS)
A sovereign creditworthiness rating schedule which classifies risk levels, developed by U.S. financial regulatory institutions, the Export-Import Bank of the U.S., USAID, and the U.S. Department of State.

Internal Rate of Return (IRR)
The interest (discount) rate at which the present value of an investment in a project is zero. When this IRR exceeds the prevailing interest rate, the project is deemed to be an attractive investment.

Loan (Direct Loan)
A direct loan is a contract to provide U.S. Government money to a borrower. This differs from a grant in that the borrower agrees to repay the U.S. Government both principal and interest at predetermined rates and intervals over a fixed period of time.

Loan Guarantee (LG)
A loan guarantee is a contract between the U.S. Government and a lender (usually a financial institution) whereby the U.S. Government assures repayment to the lender in the case of default by the borrower. The U.S. Government will only disburse funds to the lender if, and when, a borrower is unable or unwilling to repay the underlying loan.

Loan Portfolio Guarantee (LPG)
A loan portfolio guarantee is a mechanism for sharing risk and financing multiple borrowers. Instead of the repayment risk of one borrower, the repayment risk is spread among a number of similar borrowers. A local intermediary financial institution (IFI) establishes a pool of loan funds with credit and underwriting standards to be met by multiple borrowers.

Net Present Value (NPV)
The present value of all cash outflows (investments) and inflows (returns) of a project at a given interest (discount) rate. Since the streams of expenditures and receipts occur over a period of time, they are discounted to account for the time dimension, using the market interest rate or the financial cost of capital to the borrowing entity. When using the NPV, the selection criterion is to accept activities with NPV greater than zero.

Non-Sovereign
A non-sovereign loan involves organizations such as private financial institutions, private businesses, municipalities, or local authorities whose loans are not explicitly guaranteed by sovereign (state or central) governments. As such, the non-sovereign transaction (loan or loan guarantee) does not benefit from a host government's full faith pledge of repayment, and therefore, a detailed credit risk assessment of the activity is required.

Office of Development Credit (ODC)
The ODC in USAID/Washington provides technical expertise and analytical support to USAID Missions and Bureaus. The Office promotes, administers, and monitors DCA activities and other USAID credit programs.

Portable Loan Guarantee
Portable guarantees are reserved for potential DCA borrowers that need assistance in accessing commercial loans. USAID provides the commitment of a loan guarantee to the borrower.

Subsequently, the borrower can secure private sector loan financing at competitive terms from a financial institution that meets USAID criteria, e.g. a minimum investment grade or satisfactory CAMELS rating.

Risk Assessment
A risk assessment involves analyzing the financial, economic, market, and political aspects of a transaction to determine the probability of a loan default. Usually this will include the creditworthiness of the borrower and the intermediary (where applicable), country macroeconomic issues, the structure of the transaction, and the presence of risk mitigating factors. These are summarized in the WARF score.

Sovereign Risk
Risk undertaken or backed by the full faith and credit of a sovereign nation.

Subsidy Cost
It is useful to think of the credit subsidy cost as a type of loan loss reserve in the case of default, or as a type of insurance premium that is paid whether or not an event occurs. The OMB-approved subsidy model takes into account the size, the term and fee structure of the DCA guarantee. These factors affect the overall cost to the Mission. Pursuant to Section 502(5) of the Federal Credit Reform Act of 1990, the costs of all direct loan and loan guarantee programs of the Federal Government are estimated for budget and appropriation purposes, at their approximate cost, expressed in discounted present value terms.

Subsidy Mitigation
Certain risk elements can be either reduced or eliminated depending on the credit agreement. Examples of subsidy mitigation include pledged collateral, escrow accounts, and counter guarantees.

Weighted Average Risk Factor (WARF)
The WARF scoring of a DCA project represents the overall estimated credit risk of the project based on an ordinal scale of 1 to 5. The four risk categories included in the WARF are: country risk, lender risk, borrower risk, and transaction risk. Higher WARF scores denote higher credit risk.

SAMPLE CONCEPT PAPER
USAID/SOUTH AFRICA

I. Project Description

USAID\South Africa proposes to utilize DCA credit authority to raise private capital to support the redevelopment of the largest vacant site in the Johannesburg inner city core for the provision of low to moderate-income residential housing in a mixed-use development. The program is consistent with USAID\South Africa's objectives and with the redevelopment program being guided and supported by the Greater Johannesburg Metropolitan Council (GJMC). The implementing agent, the Johannesburg Housing Company, is a non-profit corporation, which has a proven track record of delivering affordable housing to the inner city.

The significance of this proposed program extends far beyond the specific project. Johannesburg is the economic and political center of South Africa, and more importantly, Southern Africa. Johannesburg is in the midst of a major effort to recover from wrenching economic, social and demographic changes following the end of the apartheid government in 1994. One of the immediate effects of the political change was the movement of large numbers of homeless and unemployed black South Africans into Johannesburg. Concurrently, upper income residents and businesses migrated to the northern suburbs leaving the central core vacant and under utilized. The inner city became the realm of the poor, unemployed and most desperate of South African citizens. Downtown Johannesburg took on the appearance of a derelict area devoid of normal urban activity after the end of the workday, not unlike other major urban centers in North America or Europe, which experienced significant economic decline.

Over 10% of South Africa's GDP is derived from the GJMC area and the revitalization of the inner city is a key objective of the new political leadership recently elected in the December 2000 local government election. The GJMC has made the rehabilitation of central Johannesburg a priority and has initiated significant improvements in the management of the city, including its financial management and in restoring basic urban services. USAID has supported the financial and economic turnaround in Johannesburg with over $2 million in grant resources to improve service delivery and economic development. One element of this grant support has helped create the Johannesburg Development Authority which is spearheading the inner city redevelopment. In addition, USAID successfully concluded a $25 million DCA guaranty last year that enabled the Metro to borrow $25 million from the private sector for the provision of environmental infrastructure. This DCA proposal is supportive of that effort although a new partner has been identified.

The JHC DCA proposal also complements work being undertaken by USAID\South Africa's Housing and Urban Environment Team (SO6) and the Democracy and Governance Strategic Objective (SO1). The latter is seeking to strengthen democratic local governance through policy reform, direct assistance to municipalities and network learning. SO1 is providing direct support to an inner city redevelopment initiative in the area which seeks to engage citizens in a participatory planning process that would improve the living environment and develop a sense of community in a neighborhood known for its high-crime, pollution and transient population. Taken together, the SO1 and SO6 initiatives would provide a synergistic approach to improving the quality of life for residents of the inner city.

Johannesburg Housing Company (JHC) was formed as a non profit company dedicated to revitalization of inner city Johannesburg. The Company was formed in the mid-1990's to assist in the regeneration of the inner city of Johannesburg through the provision of secure shelter, primarily through social or rental housing. To date, JHC has developed 10 properties, which is the home to over 3,000 downtown residents. Another two properties will be under construction by the middle of 2001 and these units will house an additional

1,200 residents. Over R42 million has already been invested in downtown properties by JHC. Vacancy rates on their properties are less than 5% and the collection rate exceeds 95%. While primarily donor funded, JHC is now entering the second phase of their development plan and moving to become more commercially viable and sustainable. In lieu of grant resources, JHC is seeking DCA authority to raise private sector capital for their newest and largest program to develop affordable shelter in inner city Johannesburg.

Other donors are also involved in the transformation program in Johannesburg and through the JHC. The European Union has provided significant grant funding to the Johannesburg Housing Company and DfID, the World Bank, and several other bilateral donors have supported the Metro's transformation.

The proposed JHC project is fully consistent with USAID/South Africa's Strategic Objective 6 in support of housing and urban environmental services. USAID/South Africa has pursued this objective for the past 10 years and has made over $265 million available in grant and credit resources. The Mission is recognized as a leader in the sector and has excellent contacts with local authorities and the private sector.

II. Structure of the Project

USAID\South Africa proposes to utilize the DCA program to support the largest residential and mixed-use development project in Johannesburg's inner city in the last 20 years. The project area, referred to as Brickfields, is located in Newtown which sits on the western edge of the Johannesburg inner city. On its eastern boundary is the financial district, characterized by high rise, modern buildings and the historic Diagonal Street precinct. The railway marshalling yards are to the north and the more residential areas of Fordsburg lies to the west. The light industrial area of Selby is located on the southern edge of the precinct. The area is well located in terms of the motorway and is in fact on the development axis between Soweto and Midrand. The land for the residential development has been made available by the GJMC

Newtown has historically always been a very mixed area, where people work, entertain and live. While this character has been under threat in recent years, the introduction of a critical mass of housing has been identified as the most significant intervention required to complement the economic interventions of the area. This has been widely acknowledged by all stakeholders and supported by international experience, which points to the importance of having economically active residents in the inner city as part of a successful urban renewal strategy. Housing is therefore a cornerstone of Newtown's and the inner city's redevelopment strategy. Greater Newtown has all the necessary characteristics to support inner city rental or social housing. It offers the unique opportunity to introduce a mix of residential units and types in close association with economic opportunities. It also offers opportunities for greenfields development as well as the conversion of existing buildings (brownfield development).

The Brickfields residential development will include 750 units in the form of three story walk-ups arranged in a courtyard environment with semi-private spaces, including social facilities. The strong emphasis on mixed-use development and the integration of land uses is in accordance with national, provincial and local planning policy and has the support of the Council. It is estimated that over 3,000 individuals will reside in the Brickfields development, making it the single largest concentration of residential property in the inner city.

Total project costs are estimated to be R63 million (approx. $8 million). JHC is raising R20 million ($2.5 million) in equity and that fundraising activity is ongoing. An additional R4.7 million ($600,000) in government subsidies has already been committed under the national government's housing subsidy scheme. The final portion of financing is the balance of R38 million ($4.85 million) in the form of a private, commercial loan.

The DCA program would guaranty up to 50% of principal and interest of this loan of R38 million. Thus, the AID liability on the JHC DCA guaranty would not exceed $3 million. We anticipate that payments would be made quarterly and the principal would decrease over the life of the loan which would be 10 years. Fees associated with the loan would be paid in South African Rand and any payouts to private lenders would also be paid in Rands. The construction period is 18 months and we anticipate monthly drawdowns. USAID\South Africa would hope to structure a grace period on principal payments during the construction period.

While an investor has not been selected, we intend to secure some form of a commitment from a private sector lender before closing the transaction. We fully anticipate that the lender will have a Fitch IBCA credit rating of BBB+ or better.

III. Funding Source for DCA Credit Subsidy

USAID\South Africa proposes to split fund the subsidy costs associated with the JHC DCA transaction. We would request that two-thirds of the credit reserve costs come from the urban environment appropriation and the balance of funds will be provided by the USAID\South Africa FY01 OYB budget under Strategic Objective 6, Housing and Urban Environment.

IV. Management Responsibility

Overall management responsibility will be provided by the USAID SO6 Team Leader or his/her representative. This will be undertaken in close coordination with the Director of G\EGAD\CI which will also assist with annual visits to South Africa as well as the review of audited financial statements provided by JHC.

V. Other Financial Support

USAID\South Africa is the largest donor in the housing and urban environment sector in South Africa and the largest donor providing support to the Greater Johannesburg Metropolitan Council. JHC is also a grantee although that grant is due to successfully end in October 31, 2001.

VI. Estimated Time Frame for Project Implementation

DCA appropriated funds in support of the urban environment and the SO6 DA funds to support this program would be obligated in a Guaranty Agreement by September 30, 2001. We anticipate a borrowing shortly thereafter but no later than May 30, 2002.

SAMPLE DEVELOPMENT ANALYSIS
USAID/UGANDA

The proposed DCA Loan Guarantee Program (LPG) strongly supports the USAID/Uganda Strategic Objective 7 "Expanded Sustainable Economic Opportunities for Rural Sector Growth". SO7 is supported by Intermediate Results (IRs) that identify increased food security for vulnerable populations, increased productivity of agricultural commodity and natural resource systems, increased competitiveness of enterprises in selected sectors, and improved enabling environment for broad-based growth. The DCA program will contribute to all four IRs, with a direct impact on the latter two - and an indirect but equally important impact on the first two.

SO7 places priority on assisting the GOU to reduce rural-based poverty by expanding economic opportunities and incomes. Two key outcomes are expected: increased enterprise incomes for farm enterprises, community and producer organizations, micro-, small-, and medium-enterprises (MSMEs) and industry-scale export sectors; and enhanced policy and institutional capacity that improves the enabling environment, allowing Ugandans to pursue sustainable economic activities.

The development of MSMEs is critical to the economic growth of Uganda. Roughly 800,000 microenterprises and small businesses account for nearly 90 percent of non-farm employment. A formal small and medium enterprise sector (10 or more employees) is emerging and playing an increasing role in providing inputs, market outlets, and support services. Small business is particularly active in the emerging service sector, which has grown from 36.6 percent to 40.2 percent of GDP in the past five years and encompasses such activities as eco-tourism, the cell phone industry, and information technology. In larger export sectors such as coffee and cut flowers, small manufacturing enterprises and business services providers are emerging in support of the industry. These enterprises, the so-called "missing middle", also need access to finance and support services to build their competitiveness.

Although liberalization measures in the country have ignited an economic revival, private sector growth is subject to numerous constraints. MSMEs have been among the hardest hit, as they are not served by the formal banking system and do not possess the management and technical skills necessary to expand their businesses. Through USAID/Uganda, there are currently varieties of innovative interventions underway that support the growth of the MSME sector in Uganda.

In January 2001, USAID/Uganda launched a pilot competitiveness activity called Competitive Private Enterprise and Trade Expansion (COMPETE), implemented by CARANA Corporation. During the April-June period, COMPETE established three sector working groups comprising individuals representing different stakeholders in each sector, including producers, processors, other intermediaries, exporters, representatives of sector associations, donor projects, and research and government institutions. The objective of the working groups is to forge public-private cooperation in implementing the action plans and develop self-sustaining leadership groups in each sector that can give long-term continuity to the competitiveness process.

The role of the government as a stakeholder and partner with these sectors was established through several alliances. At the highest level, the COMPETE team is working with a special Presidential Task Force on Export Competitiveness chaired by the Ministry of Finance, Planning and Economic Development. This allows COMPETE to position its project goals at the highest levels of government. Working collaboratively with USAID and the Task Force, the COMPETE team has been able to present its concepts and activities to the President and expects to continue this consultation during the next quarter. The Task Force is proposing to the President the convening of a national Poverty Alleviation through Export Competitiveness Conference in November. The conference will focus national attention and resources on the needs of Uganda's economy to improve its export performance in world markets.

Intricately linked with COMPETE are two traditional USAID-funded development activities: Support for Private Enterprise Expansion and Development (SPEED), which supports economic growth through increased use of financial services by MSMEs; and Investment in Developing Export Agriculture (IDEA), which supports the growth and strengthening of SMEs involved in non-traditional exports.

Through its Medium-Term Competitive Strategy for the Private Sector (MTCS), the Government of Uganda (GOU) has placed high priority on improving the business environment for MSMEs. This strategy emphasizes the regulatory, financial, and legal reforms and infrastructure development that are required to remove constraints to growth among businesses of all sizes. Specific financial reforms that will be undertaken deal with the development of financial services suited to SME needs, including leasing, equity funds, and capital markets. For microfinance institutions (MFIs), the GOU seeks to develop a legal and regulatory framework specific to their needs, an interest rate policy, and a debt collection program. USAID/Uganda is committed to supporting the implementation of the MTCS.

The proposed concept envisions executing an LPG agreement with seven commercial banks in Uganda for a total authorized amount of $15 million with a guarantee ceiling of $7.5 million. Traditionally, most Ugandan banks and other providers of credit have focused on large multinational companies as their target customers. SME and agricultural business loan facilities have not been readily offered by lenders because of high delivery cost and poor past experience in these sectors. Lenders have had to rely almost exclusively on the value of collateral to support the loans, as they have not been provided adequate financial information to use proper cash flow analysis techniques in the loan appraisal process. Most SME and agricultural applicants cannot qualify because they lack acceptable security, and those few that do receive credit are often burdened with unreasonable repayment terms due to improperly structured loan facilities.

A November 2000 USAID-financed assessment of SME and agricultural lending conditions in Uganda indicated willingness on the part of bankers to expand their SME and agricultural portfolios. To do so, however, they must believe that the risks are reasonable.

The implementation of the DCA activity will improve the development impact of USAID to foster economic growth in the rural areas of Uganda, and will assist the GOU in its efforts to improve the country's business environment. DCA loan portfolio guarantees provide an excellent implementation phase support to complement ongoing programs to strengthen the MSME and agriculture sectors. Using wholesale loan portfolio guarantees, USAID, working together with the selected seven local commercial banks, will bring in the necessary investments to stimulate the growth of MSMEs. The result of this effort will be sustained economic growth in rural Uganda. Without expanding sustainable economic opportunities for rural sector growth, the goals of many USAID/Uganda programs, including those in other sectors that touch on rural sector growth peripherally, may not be met.

This DCA activity is an essential component of USAID/Uganda's Mission strategy in that it will contribute to the results of SO7, both directly and indirectly. Additionally, it will further cement USAID/Uganda's commitment to the GOU in implementing its Medium-term Competitive Strategy for the Private Sector.

SAMPLE ECONOMIC VIABILITY ANALYSIS USAID/BRAZIL

The USAID Missions in Brazil and Mexico, in collaboration with G/ENV/EET, are proposing a DCA loan portfolio guarantee to support the establishment of an equity fund nominated Clean Tech Fund ("CTF" or "the Fund"), with a subordinated debt facility, which will make investments in renewable energy and clean production technologies.

The Fund will provide capital for innovative small and medium enterprises (SMEs) and other companies in MIF-eligible countries in Latin America that utilize clean technologies to reduce the need for fossil fuel and fossil-based input use. The Fund will be active in all MIF-eligible countries in the region, but the DCA component to be supported by USAID will only be used in USAID assisted countries. As the largest and most important economy in the region, Brazil will receive up to 45% of the Clean Tech Fund investments, and Mexico is expected to receive 45% as well. The remaining 10% will go to other USAID-assisted countries in the LAC region (subject to the approval of the Mission in each country).

The Fund will provide four products to eligible SMEs: (1) equity for established companies willing to adopt cleaner technologies; (2) grants to stimulate start-up companies and promote necessary research and business planning prior to capital investment; (3) debt financing for working capital and capital investments in clean technology to supplement equity infusions; and (4) resources to purchase carbon offsets from investee companies. The DCA loan guarantee will only be used to support the debt financing aspect of this Fund.

The Fund, to be administered by A2R and Econergy, will have an equity component ranging from US$ 20-35 million, supplemented by US$ 3-5 million in grant funds available for business plan development and technical assistance to development potential investments. The equity component will be leveraged 1-to-1 by a debt facility in the range of US$ 20-35 million. Specifically, DCA will be used in this case to support the debt facility and attract private capital for on-lending to eligible projects.

Eligible sectors include: energy efficiency, renewable energy, pollution prevention/recycling and transportation efficiency. The Fund will have a capitalization of US$ 20-35 million for investments in small to medium-size enterprises (SMEs). SMEs are companies with annual turnover of up to US$ 10 million and less than 100 employees) in Latin America. Most of the projects to be guaranteed by the DCA are expected to be in the key markets of Brazil and Mexico, with lesser activity possible in other LAC countries.

1. THE PROPOSED ACTIVITY WILL ADDRESS IN-COUNTRY MARKET IMPERFECTIONS

A. General Background

The recent increases in energy efficiency, renewable energy, pollution prevention and transportation efficiency is being driven by a variety of factors. For example, greater exposure to international markets, especially Europe and North America, is putting greater pressure on industries in the region to achieve ISO certification in order to penetrate markets in western countries. Because of this exposure to international markets and higher standards for environmental quality, as well as community participation and improved democratic processes, governments in Latin America have been increasingly supportive of the market-based and public interest trend toward higher environmental quality standards, especially in regards to pollution control, recycling, energy efficiency, renewable energy, and transport efficiency.

In addition to such industry pressures, the recent increase in fossil fuel prices, and drought related shortages in hydroelectric power, has led companies to conserve and diversify their energy resources. Many Latin American countries are also in the process of deregulation and privatization of their energy sector, resulting in increased costs for energy, water and other inputs.

But, in spite of this increasing demand, the scarcity of capital has prevented significant changes in the number of companies implementing clean energy technologies and industrial processes. Although some national governments are supportive of the concept of promoting clean and/or renewable technologies and practices, the instruments needed to catalyze the necessary investments are often limited to the larger scale projects with the access to capital from multi-lateral development banks and large commercial international banks. This scarcity in capital has caused many companies to avoid making investments in these areas until they can find a way to access capital at acceptable interest rates.

B. Specific Market Imperfections

The macro-economic conditions found in most Latin American countries are gradually becoming more closely aligned with free and open market principles, but market imperfections that impede clean and adequate energy supplies are still common. These market imperfections have resulted in insufficient production, uneven access to energy services (in both socio-economic and geographic terms), and insufficient capital for new and innovative sustainable energy technologies and energy efficiency efforts. The DCA/Clean Tech Fund is meant to address these market imperfections.

Several examples of market imperfections that are impeding clean and efficient electricity generation and distribution across the region are highlighted below:

- In *Brazil*, demand for electricity has outpaced supply by 20 percent for the last few years. The recent rationing program in the country is the result of these chronically low electricity supplies. And although the central government is actively engaged in increasing production, the reform of the Government's national investment program has been moving at a slower pace than that of the growth in electricity demand. Since 1991, electricity consumption growth in Brazil, which has averaged 4.1 percent, has consistently outpaced annual generation capacity growth of 3.3 percent. Between 1995 and 1999, this gap widened with economic stability from the Real Plan. Further aggravating the situation, rainfall in critical regions has remained far below average in many areas – which further reduces the Country's ability to increase electricity production from existing hydro-power facilities.
- In *Peru,* the rate of privatization of state-owned energy industries has slowed down considerably in the last couple of years, and much of the rural population lacks electricity and other basic infrastructure. Approximately one-half of the country's electricity comes from large-scale hydro-electric projects, with the rest coming from fuel oil and coal fired plants. However, the diverse geographic conditions have resulted in several unconnected grid systems. Consequently, there are opportunities to develop small-scale distributed energy systems that could utilize small-hydro power, agricultural biomass, and wind resources to provide energy to localized regions.
- In most *Latin American* countries, access to electricity is unreliable at best, and is non-existent in many rural and poor-urban areas. Countries need to expand their power production capacity, and diversify their energy sources away from the traditional large-scale hydro-power and fossil fuel projects, in order to alleviate power blackouts and rationing. Many Latin American countries also need to develop energy resources in rural off-grid areas, and address severe air and water contamination in the large urban centers.
- In *Mexico*, the electricity sector is at a crossroads. Although generation has increased rapidly over the past decade, supply is not expected to meet demand growth over the next two decades. Given current grid capacity constraints, regular shortfalls resulting in nationwide blackouts are predicted within the next two years. Failure to make substantial investments in generation capacity and

infrastructure could adversely affect the international competitiveness of Mexico's key industrial northern regions.

An example of a market imperfection that would be addressed by the Clean Tech Fund in general, and the DCA loan portfolio guaranty in particular, can be found in the market for renewable energy in Brazil. According to the Brazilian government, $25 billion in investment is required to deliver electricity to 25 million Brazilians who currently do not have access to it. The government hopes to fill much of the need for electricity in this "invisible market" through renewable energy resources, including solar, wind and small-hydro resources. Many of these resources can be used in rural applications. In addition, there is great potential for larger-scale grid-connected renewable energy, especially using biomass as fuel. Brazil has the world's largest sugar industry, with an estimated 4,200 MW of bagasse-fired co-generation potential. Brazil's electricity markets have been evolving rapidly in the last decade, with numerous privatizations and a move toward open access and pricing for electricity, but without a concurrent incentive regime promoting the increased use of renewable resources in the generation mix.

Similar dynamics are occurring in the renewable energy market in Mexico. While privatization of CFE, the state-owned utility monopoly, will not likely occur in the next few years, electricity supply shortages are raising prices. In fact, demand for electricity is growing by over 10% a year in certain regions, and additions of new capacity to CFE's existing 35,000 MW system are lagging behind schedule. Mexico has significant renewable energy resources that, combined with continued policy improvements and price rationalization, should create a positive environment for investment in the sector. Mexico possesses excellent wind resources and significant development potential in a number of regions throughout the country. Mexico's Institute of Electrical Research (IIE) estimates a total wind generation potential of at least 5,000 MW. This number may be conservative since limited work has been done to identify development areas and more accurately quantify the resource.

In summary, it is expected that the DCA project will increase the availability of capital for renewable technologies, as well as address constraints in the energy efficiency, pollution prevention, and transportation efficiency. This will help Latin American countries in meeting the regional trends of rapid urban population growth and industrialization, the enforcement of more stringent environmental regulations, and the growing interest in promoting cleaner transportation systems.

2. PRIVATE SECTOR FINANCING NOT DISPLACED

The DCA loan portfolio guarantee will not displace demand for capital and debt financing that could be fulfilled from the private sector. Private sector financing for the loan guarantee portion of the Clean Tech Fund is not likely to be available under terms that could be supported in this new industry. That is, private banks are often reluctant to finance what is perceived to be "new and unproven" approaches/technologies, and if they do agree to finance a project, the interest rates are usually prohibitive. Additionally, many countries in the region either have adopted macroeconomic policies that increase the cost of capital (i.e. making investments more expensive) or simply do not have the liquidity necessary to attract capital. As such, the relationship between the growing potential for clean technologies and the insufficient capital available for these investments highlights a private sector financing gap that this DCA guarantee will address.

More specifically, financial institutions in Latin America are unwilling to directly finance clean energy/energy efficiency projects because equipment tends to be dispersed, making collateralization difficult. In general, the commercial banking sector in these countries considers the risks too high and fails to perceive loans to clean technology projects as viable investments. And when financing can be obtained from the private sector, the instruments developed thus far focus primarily on large-scale projects, leaving a market gap in the private sector financing of small and medium clean technology investment opportunities. In contrast with these large scale projects, small and medium sized projects can be built faster and come on line to provide the needed energy in a relatively short time frame. A good example of these smaller scale projects are the co-generation projects constructed by companies providing their own generators fueled by natural gas, diesel, oil, and biomass, such as sugar-cane residue – to provide energy for their own business. These projects are characterized by high initial capital costs to cover the lifetime supply of "fuel energy". In this manner, they are subject to the hurdles of long-term financing. The widely accepted standards of financing costs, procedures and timetables associated with large-scale project work against small to medium renewable projects.

In other words, Latin America generally lacks its own financial resources to provide the incentives and opportunities needed to stimulate innovation in small to medium sized clean and/or renewable energy technologies and industrial processes. A concerted effort by USAID and other donor agencies will reduce the financing hurdles for such projects, and will increase the number of projects initiated, and the overall quality and sustainability of the project portfolio, and accelerate the implementation, and reduce the cost of such projects in Latin America.

3. GUARANTOR OF LAST RESORT

Funding through the DCA Portable Guarantee will facilitate the success of the Clean Tech Fund. However, access to the DCA will not remove all risk for the project sponsors, investors, and other lenders, and it will not preclude the involvement of other guarantors. Clean Tech Fund managers designed the equity investment fund to be complemented by an equivalent level of debt from qualified local lending institutions. Local currency loans will be crucial to cover working capital expenses and debt financing needs, allowing the projects to pay back their loans in the same currency of the generated revenues. By increasing the leverage capacity of companies that partner with the Clean Tech Fund, DCA can be the catalyst for more expedient development of the targeted sectors.

Brazil offers a telling example of the critical role a DCA guarantee can play. Overall, Brazilian economic conditions are not favorable for local financial institutions to have confidence in long-term investments. For a project to be viable for financial institutions, companies need to agree to purchase electricity for 15 to 20 years. That is a daunting proposition for Brazilians, who have been made shy of long-term commitments by years of economic turmoil. A DCA guarantee will lessen the perceived risk of bankers to lend to a project with a long-term repayment horizon.

In the immediate term, the DCA portfolio guaranty supports long-term lending that would otherwise be extremely difficult to obtain in the private sector. USAID is acting as a guarantor of last resort in the absence of a competitive banking industry and other guarantee facilities. Over the longer term, USAID's participation in this initiative will demonstrate the efficacy and profitability of applying renewable energy sources to meet production and transportation needs, and will facilitate the development of a competitive capital market for environmentally sound and energy efficient projects.

4. SUMMARY

In conclusion, this economic analysis indicates that market imperfections that inhibit the development of small and medium sized energy projects exist in many Latin American countries, and these imperfections could be alleviated through the DCA loan guarantee. It is also extremely unlikely that this program would take the place of private sector investment, and therefore USAID is likely to be the guarantor of last resort.

FINANCIAL VIABILITY ANALYSIS OUTLINE

Depending on the type of guarantee being provided and the type of institution being guaranteed, a Financial Viability Analysis is comprised of different components to allow the analyst to use the tools that best assess the capacity of the borrower to repay its obligation to the lender(s). The framework guiding the composition of Financial Viability Analyses provides the analyst with enough flexibility to accurately reflect the financial viability of the activity and the borrower(s). Generally, the following components will be required to demonstrate financial viability for a given activity.

The *Introduction* section should contain the following components:
- Description of the borrower(s) organizational type (i.e., company, special purpose vehicle, municipality, etc.);
- Brief note regarding the broad regulatory framework governing the category of institution in which the borrower(s) is classified; and
- Summary of the findings of the analysis, with particular reference made to the organization's weaknesses that may lessen repayment capacity.

The *Operating Environment* section should contain the following components:
- Detailed summary of the existing conditions in the regulatory environment and legal framework that could hinder the ability of the borrower to repay its debt obligation, including but not limited to general restrictive operating guidelines, systemic and market-related issues, pricing and foreign exchange controls, liquidation capacity, and nationalization of private enterprises;
- Brief description of the bankruptcy, forfeiture, and foreclosure laws that govern the borrowing entity; and
- Note on potential changes (implied and stated) in the aforementioned environment.

The *Cash Flow Projections and Analysis* section should contain, as applicable, the following components:
- Review of the institution's loan portfolio (to assess lifetime performance and management capacity);
- Evaluation of micro factors that could impact future cash flows: existing and anticipated debt services, asset base, liquidation capacity, management, etc.;
- Analysis of similar active or completed projects and the institution's ability to manage them from implementation to close out;
- Assessment of the financial resources available to implement the proposed activity;
- Review of the accuracy of the projected cash flows for the activity; and
- Analysis of the expected rate of return and mitigating factors.

The *Identification of Strengths and Weaknesses of the Borrower* section should contain the following components:
- Brief description of the strengths and weaknesses of the borrower that could affect cash flows; and
- Assessment of the organization(s) ability to manage and/or mitigate the weaknesses.

Financial Viability Analysis – Sample Cash Flow Analysis- USAID/India

The **Pro Forma Balance Sheet and Income Statement** (Table A & B) show accounting-based data forecasted over the ten years of the project. The **Pro Forma Cash Flow Statement** (Table C) demonstrates that the annual net flows are adequate to cover all operating expenses and debt repayment requirements during the ten-year operating period. The Internal Rate of Return (IRR) shows a positive return of 24% on a cash basis over the life of the project. The cost of debt financing for the project is conservatively estimated at 17%, based on current negotiations with interested lenders. The project's equity-based IRR, factoring in cost-of-capital, is 7% (24 - 17) and is, therefore, financially viable.

Sensitivity Analyses to the cash flows are provided following Table C. The various scenarios test the financial viability of the project to generate sufficient cash flows, considering the positive effort of lower interest rates and the negative effect of lower earnings produced.

TABLE A: Pro Forma Balance Sheet (US $ '000s)

(USD '000s)	Year 0	Year 1	Year 2	… Year 10
ASSETS				
Current Assets				
Current Assets, Advances & Deposits	203	778	796	814
Cash & Bank Balances	-	1,368	2,960	13,321
Prepaid Expenses	27	24	21	-
Total Current Assets	230	2,170	3,777	14,136
Fixed Assets				
Plant, Property & Equipment	9,770	9,796	9,821	10,025
less depreciation -SLM	-	758	1,517	7,643
Total Fixed Assets	9,770	9,038	8,304	2,382
TOTAL ASSETS	10,000	11,208	12,081	16,518
LIABILITIES				
Current (Bank Borrowings)	-	575	588	602
Term Loan	7,000	7,000	7,000	-
TOTAL LIABILITIES	7,000	7,575	7,588	602
EQUITY				
Promoter Contribution	3,000	3,000	3,000	3,000
Retained Earnings	-	564	1,353	12,531
TOTAL EQUITY	3,000	3,564	4,353	15,531
TOTAL LIABILITIES & EQUITY	10,000	11,138	11,941	16,133

TABLE B: Pro Forma Income Statement (US $ '000s))

(USD '000s)	*Notes*	Year 1	Year 2 …	Year 10
Total Annual Sales		$4,709	$4,945	$7,306
COGS (Cost of Generation)	*1*	$2,080	$2,085	$2,939
EBITDA	*2*	$2,629	$2,860	$4,367
Interest on Term Loan		$1,190	$1,190	$0
Interest on Bank Borrowings		$115	$118	$121
Total Interest Expense		$1,305	$1,308	$121
EBTDA	*3*	$1,324	$1,552	$4,246
Depreciation (SLM)	*4*	$758	$759	$770
Preliminary Expenses Written Off		$3	$3	$3
EBT	*5*	$564	$790	$3,474
Tax Liability		$0	$0	$1,540
Net Profit After Tax		$564	$790	$1,933

Notes:
1. COGS: Cost of Goods Sold
2. EBITDA: Earnings Before Interest, Taxes and Depreciation & Amortization
3. EBTDA: Earnings Before Taxes, Depreciation & Amortization
4. Depreciation: Straight Line Method is used for accounting reporting purposes. Written Down Value (WDV) method is used to determine tax liabilities. This explains the tax-free position for the first 4 years of operations due to EBT losses from front-end oriented WDV method.
5. EBT: Earnings Before Taxes

TABLE C: Pro Forma Cash Flow Statement -- (US $ '000s)

(USD '000s)	Year 0	Year 1	Year 2	…	Year 10
Cash Flows From Operations (CFO)					
EBITDA	0	2,629	2,860		4,367
Change in Working Capital	-203	-575	-18		0
Taxes	0	0	0		-1,540
CFO	-203	2,055	2,842		2,827
Cash Flows from Investments (CFI)					
Project Capital Expenses	-9,770	0	0		0
Preliminary Expenses	-27	0	0		0
Normal Capital Expenses	0	-25	-25		-25
CFI	-9,797	-25	-25		-25
Cash Flows from Financing (CFF)					
Promoter's Equity	3,000	0	0		0
Term Loan	7,000	0	0		0
Bank Borrowings	0	575	13		0
Interest on Term Loan	0	-1,190	-1,190		0
Interest on Bank Borrowings	0	-115	-118		-121
CFF	10,000	-731	-1,295		-121
Total Cash Flow	0	1,299	1,522		2,681
Free Cash Flow - CFO + CFI	-10,000	2,029	2,816		2,801
Present Value of FCF (@17%)	-10,000	1,734	2,057		583

IRR	**23.6%**
NPV (@17%)	**2,545**
Payback Period	**4.6 years**
Discounted Payback Period	**7.3 years**

(Note: 17% is used to reflect a conservative estimate for the cost of capital that the borrower should be able to obtain from a private financial institution)

SENSITIVITY ANALYSIS A
10% LOWER EARNINGS

IRR	19.8%
NPV (@17%)	1,033
Payback Period	5.0 years
Discounted Payback Period	9.0 years

SENSITIVITY ANALYSIS B
10% HIGHER EARNINGS

IRR	27.2%
NPV (@17%)	4,057
Payback Period	4.3 years.
Discounted Payback Period	6.2 years

The following diagram provides a further, simplified perspective of how cash flows should be forecasted.

Overview of Forecasted Cash Flows		Year 0	Year 1	Year 2	etc.
Income/Revenue (for the business or project)	+				
Subtract: Operating Expenditures (not including depreciation)	-				
Net Income					
Add: Increases in Accounts Payable *short-term liability increases represent cash inflows*	+				
Subtract: Increases in Accounts Receivable and Inventories *short-term asset increases represent cash outflows*	-				
Subtract: Capital Expenditures	-				
"Operating Cash Flow"					
compare with: Commitments related to Current and Future Debt ----					

\+ = CASH RECEIVED

\- = CASH PAID OUT

To calculate the operating cash flow for a given project, begin with the income or revenues being generated. From that figure, subtract operating expenditures (not including depreciation) to derive net income. To net income, add the increases in accounts payable, subtract increases in accounts receivable and inventories, and subtract capital expenditures to arrive at the operating cash flow. This operating cash flow can then be projected forward for the life of the project. It should be noted that short-term liability increases represent cash inflows while short-term asset increases represent cash outflows. Most importantly, after forecasting the operating cash flows over the life of the project, these figures should be compared with the commitments related to current and future debt to determine if cash flows are sufficient to cover debt obligations.

SAMPLE FINANCIAL MONITORING PLAN
USAID/EUROPE & EURASIA

The DCA Portfolio Guarantee will be monitored by the Office of Development Credit (ODC) in Washington, with assistance from E&E/EEST/EI and E&E/MT, "the SO Team". The roles and responsibilities of each entity are outlined below:

ODC, with assistance from the SO Team, will review the semi-annual Qualifying Loan Schedules (QLSs) received from Citibank. These reviews will ensure that the loans placed under coverage meet the developmental and financial requirements of the Guarantee Agreement. The ODC will advise of any follow-up actions required by the SO Team in resolving unclear or compliancy issues.

At least once every two years, during the life of the seven-year facility, the SO Team, in cooperation with the appropriate missions, will conduct an on-site review of Citibank procedures and files to determine if Citibank is in compliance with the terms of the Agreement. The SO Team may engage the services of a contractor to conduct such reviews and site visits. Documentation of this review must be sent to the ODC.

Citibank is required to send ODC and the SO Team audited annual financial statements. If this does not occur within three months of the fiscal year close, the SO Team in cooperation with the relevant missions will contact Citibank to collect the necessary information. The ODC will utilize this information for annual subsidy cost re-estimates.

ODC and the SO Team, in cooperation with the relevant missions, will follow-up with Citibank to resolve the status of any late QLS reports and/or utilization fee payments. The ODC monitors these transactions affecting the U.S. Government from USAID/Washington and will follow-up with SO Team as necessary. As stated in the contract, Citibank failure to pay fees and to undertake the required reporting will result in termination of the Guarantee.

Prior to the SO Team approval of the payment of any claims under the Guarantee, it will verify the validity of these claims, with guidance from ODC, by ensuring that they are documented in the bank's files/records, and that the bank has undertaken all reasonable efforts to collect the defaulted loans.

When warranted, the SO Team, in cooperation with the missions, will send an Exception Report to the ODC outlining any knowledge of increased financial risk on the part of Citibank, so that the ODC can use this information as appropriate in budgeting for the payment of claims and subsidy re-estimates.

The ODC will conduct a biennial review (once every two years) of the Portfolio Guarantee. This review will cumulatively evaluate the timeliness of reporting and fee payments as well as the utilization of the Guarantee. If Citibank is not utilizing the Guarantee at a reasonable rate, the ODC may recommend to the SO Team that the funds set aside for the Portfolio Guarantee be reallocated towards a more useful purpose.

Budget for Management of the DCA Activity

1. One E&E/EEST/EI energy efficiency specialist, 5% of time – $5,600 per year/$39,000 over 7 years.
2. One E&E/MT project specialist, 5% of time – $5,600 per year/$39,000 over 7 year DCA life.
3. G/EGAD/DC travel to Bulgaria, $5,000 per trip, $15,000 (3 trips) over the 7 year DCA life, $15,000.

Total Financial Monitoring Costs/Budget Summary: $93,000

Additional support may be provided by the missions in conjunction with any subsequent funding by the missions to expand the DCA facility.

Appendix III.F- Fees Justification

Fees Justification Sample – USAID/South Africa

Proposed Fees for this Activity:

Commitment Fee: 0.25% of the guaranteed portion of the authorized amount
Utilization Fee: 0.25% of the outstanding guaranteed principal balance, annualized

Justification

USAID/South Africa is proposing a Commitment Fee of 0.25% and a Utilization Fee of 0.25% because it is consistent with program objectives.

In the past, fees for DCA activities initiated by USAID/South Africa were set to correspond to the level of risk that exists within a particular transaction. However, USAID/South Africa's experience with the fees that it set is that the relatively high fees (i.e., 0.75-1.75%) effectively handicapped the partners into either (a) not being able to utilize the facility fully or (b) made the deal an unprofitable and, therefore, undesirable form of credit enhancement.

As a result, USAID/South Africa considers relatively low fees (0.25-0.50%) as being essential to accomplish several objectives:

- Increase utilization of the facility;
- Increase the number of end-borrowers who will benefit from the guarantee;
- Ensure that the activity is profitable and, subsequently, that it is capable of demonstrating viability to the market; and
- Developing a fee structure that does not put undue stress on the partner USAID is trying to assist.

The USAID Automated Directive System (ADS) guidance that allows USAID/South Africa to make this determination is as follows. The significant language is ***italicized***:

249.3.4 Loan Guarantees
The following are the policies and procedures of DCA loan guarantees:

c. Beneficiaries of the USAID guarantee generally should be required to pay a semi-annual utilization fee based on the guaranteed portion of outstanding principal of the guaranteed loan. ***The authorizing official should set the utilization fee at not less than 0.25 percent per annum (except as described in this paragraph). In addition, a one-time activity origination fee (also known as "commitment fee") of not less than 0.25 percent of the maximum guaranteed principal amount should be charged (except as described in this paragraph).*** The authorizing official should work with EGAT/DC to come up with a fee structure (including timing and currency of fee payments) that will encourage utilization, ***while taking into consideration local practice, the development rationale of the DCA project, and the costs of administering the project.*** In the event that it is determined that the origination fee should be waived or credited toward the utilization fee, the utilization fee may not be set at less than 0.5 percent per annum. The fee structure must be justified in the activity analysis.

AGENCY FOR INTERNATIONAL DEVELOPMENT
ADVICE OF PROGRAM CHANGE

PROGRAM:	BULGARIA		
OBJECTIVE TITLE:	Accelerated Development and Growth of Private Enterprises in a Competitive Environment		
OBJECTIVE NUMBER:	183-013		
FY 2002 BJ REFERENCE:	Annex III, pp. 93-97 CN #176, dtd 3/16/01		
APPROPRIATION CATEGORY:	Assistance for Eastern Europe and the Baltic States (AEEB) Development Assistance (DA) Economic Support Fund (ESF) Development Credit Authority (DCA)		
LIFE OF OBJECTIVE FUNDING:	$74,433,000	AEEB	
	$ 4,260,000	DA	
	$ 2,120,000	ESF	
	$ 346,000	DCA	
INTENDED FY 2001 OBLIGATION:	$ 5,675,000	AEEB	
	$ 1,086,733	AEEB	(FY 2000 Carryover)
	$ 266,730	AEEB	(No year Recoveries)
	$ 346,000	DCA	

This is to advise that USAID intends to obligate $5,675,000 in FY 2001 and $1,086,733 in FY 2000 Carryover Assistance for Eastern Europe and the Baltic States (AEEB) funds for the Accelerated Development and Growth of Private Enterprises in a Competitive Environment program. $5,675,000 in FY 2001 was previously notified under CN #176, dated March 16, 2001. $836,733 in FY 2000 Carryover was previously notified under project numbers 180-0020, 23, 24, and 30. This notification is required to reprogram $389,270 in previously notified carryover, notify an additional $250,000 in FY 2000 Carryover and $266,730 in No year recoveries for implementing a new Development Credit Authority activity.

USAID intends to transfer up to $346,000 in FY 2000 carryover funds to the Development Credit Authority (DCA) program account under the FY 2000 DCA transfer authority. These funds will be obligated to cover the credit subsidy cost of a loan guarantee for financing private Enterprises in Competitive Sectors. This activity will mobilize critically needed financing for creditworthy business with export potential by providing a partial guarantee for a series of loans extended by First Investment Bank (FIB), a privately owned Bulgarian bank. These loans will be made to private Bulgarian SME companies operating in competitive sectors – tourism, information technology, transportation, light manufacturing, e.g., garment production, canning industry, food processing and commercial agriculture. This facility is a seven-year portfolio guarantee with a maximum portfolio size of $20,000,000. USAID's contingent liability for the portfolio guarantee will be up to 50% of principal losses and will not exceed $10,000,000. Loan size will range from the equivalent of $500,000 to $1,000,000. Terms of the loans will range between one to seven years depending upon the availability of longer-term financing. Loans will be extended in Leva, US$, and/or Euro, depending upon the nature of the financing and repayment capacity of the borrower.

The lack of commercial finance continues to be an obstacle to the development of competitive private companies in Bulgaria, hence, to the overall economic and social development in the country. Thus, the proposed DCA Portfolio Guarantee is a critical component of USAID/Bulgaria's comprehensive enterprise development program, serving to stimulate domestic longer-term lending and encourage greater financial intermediation.

ACTIVITY DATA SHEET

PROGRAM: Bulgaria
TITLE: Accelerated Development & Growth of Private Enterprises in a Competitive Environment, 183-013
STATUS: Continuing
PLANNED FY 2001 OBLIGATIONS AND FUNDING SOURCE: $5,675,000 AEEB
INITIAL OBLIGATION: FY 1992
ESTIMATED COMPLETION DATE: FY 2005

Summary: Thriving micro, small and medium private enterprises are an essential element of a competitive free-market environment. Activities under this strategic objective strengthen the business practices (i.e., operations, production, marketing, etc.) of selected industry clusters that offer potential for economic growth and increased exports. Access to finance is facilitated through a set of enterprise credit activities. Other activities work to reduce the legislative, regulatory and administrative barriers to investment, trade and growth.

Program categories include Micro, Small and Medium Enterprise (SME) Technical Assistance, Commercial Law Reform, Agriculture and Agribusiness, Micro-Enterprise Credit, and Energy Efficiency.

Key Results: Under this strategic objective, the Mission seeks to: (1) strengthen private enterprise and industry clusters (principally small and medium enterprises); (2) mobilize investment and credit for growth and job creation; and (3) establish or reform laws, policies, and institutions which are conducive for private sector growth.

Performance and Prospects: In FY 2001, USAID intends to obligate $5,675,000 for the Accelerated Development and Growth of Private Enterprises. Performance to date has been satisfactory.

In CY 2000, the Bulgarian Gross Domestic Product (GDP) grew by 5% in large part due to the privatization of more than 80% of state-owned enterprises, and because of foreign and direct investment in capital formation. Reflecting the changes that have occurred since the current reform-minded government took power, private sector share of GDP has increased from barely half of GDP to more than two-thirds. Still, the pace of private sector development remains a limiting factor of economic growth in Bulgaria.

USAID supported the private sector contribution to GDP growth through activities that brokered more than $15 million in transactions (including trade, licensing, franchising, etc). In total, USAID completed 310 advisory assignments (more than half of which were with woman-owned or managed firms). Under the USAID competitiveness initiative, the tourism and light manufacturing export sectors increased 15-20% among the target firms, compared with a national average of 13%. These USAID-assisted firms also added more than 1,700 jobs, most (55.2%) held by women. During FY 2001, USAID intends to obligate $1,500,000 for continued technical assistance to strengthen business practices, including operations, production, and marketing for micro, small and medium enterprises.

USAID is helping to promote the reform of commercial law, particularly to improve collateral and commercial law. Objectives include: strengthening creditor rights to seize assets; promoting wholesale adoption of internationally accepted accounting standards; enhancing disclosure necessary for credit analysis; and increasing tax collections thus reducing the gray economy. Adoption of international accounting standards (IAS) is among the most important initiatives in commercial law reform. Having succeeded in requiring IAS reporting for all banks and financial institutions, USAID is now working to influence the Ministry of Finance to similarly mandate IAS for all tax-related purposes. This is essential for transparency and good governance and will contribute to the creditworthiness of would-be Bulgarian borrowers. It will permit Bulgarian firms to raise debt and equity capital; and provide important corporate financial tools that will further support investment and growth. With USAID assistance, sixteen firms adopted International Standards Organization (ISO) 9000 quality standards, and thus were able to penetrate Western European markets. During FY 2001, USAID intends to obligate

$1,900,000 to promote commercial law reform including the adoption of international accounting standards for all tax-related purposes and to promote banking law that improves capital availability for small business operators.

Support for small and medium agribusiness firms has been provided at the firm level to increase production and to improve the effectiveness of agribusiness operations. Although the agriculture sector was hard-hit by drought, the Warehouse Receipts program continued to expand. The number of licensed warehouses increased to 22 with nearly 250,000 metric tons of grain in storage by fall 2000. Under this program, farmers are issued a "Warehouse Receipt" for the grain that they store in a licensed/bonded warehouse. This receipt serves as a financial instrument and can be pledged as collateral to secure necessary working capital loans. During 2000, three banks originated more than $3.5 million in loans against these receipts. By obviating the need for farmers to sell grain at potentially disadvantageous prices, the Warehouse Receipts program has helped to increase farm incomes, and to stabilize grain and commodity prices, which is good for the markets. USAID proposes to obligate $850,000 to continue technical assistance directly to small agribusiness firms, to improve agribusiness' marketing skills, and to improve access to credit.

Complementary banking reform efforts have improved the ability of banks to appraise and administer loans, but banks continue to be reluctant to lend to small and medium business operators. To enhance access to capital, USAID supports three credit facilities to assist micro-, small, and medium enterprise and two loan guaranty facilities. SME finance facilities, focused in part on businesses located in the Danube River region, are currently administering loan portfolios exceeding $10 million. These credit facilities provide critically needed financing to a growing segment of the economy that is currently under-served by commercial banks. The loan guaranty facility (which secures up to 50% of the risk in energy efficiency related investments) loaned nearly $1 million to private and municipal borrowers and currently has approximately $5 million under loan committee review. During 2001, USAID proposes to obligate $1,425,000 to continue to facilitate credit mobilization.

Beneficiaries: The direct and primary beneficiaries are private enterprises that create jobs and fuel demand for domestic inputs through export-led growth. All Bulgarian citizens will benefit from the improved business environment through increased economic stability and growth that will create jobs that generate wealth.

Possible Adjustments to Plans: During FY 2001, USAID/Bulgaria will revise its program strategy to determine the appropriate level and content of activities to support this sector. Assessments and sector specific studies will provide valuable analyses for developing the strategy. Continued support for development of the private enterprise sector is expected to comprise a significant set of activities.

Other Donor Programs: USAID coordinates its assistance for the growth of the private enterprise sector through a World Bank-hosted Coordinating Committee, comprised of a Policy Committee chaired by USAID and a Finance Committee chaired by EU PHARE. EU assistance has focused largely on institutional strengthening of the Bulgarian SME Agency. The British, German and Austrian aid agencies have programs targeted at policy reform, as does the World Bank. USAID has worked closely with the European Bank for Reconstruction and Development (EBRD), International Finance Corporation (IFC), Soros Fund, the British, Dutch and Swiss to launch new SME finance initiatives.

Principal Contractors, Grantees or Agencies: USAID implements its activities primarily through the following partners: International Executive Services Corps; the University of Delaware; Agriculture Cooperative Development International/Volunteers Oversees Cooperative Assistance; Management Systems International; Opportunity International; Catholic Relief Services; World Council of Credit Unions (WOCCU); American Bar Association/Central and Eastern European Law Initiative (ABA/CEELI); Bulgarian-American Enterprise Fund; and private banks (in conjunction with the loan guaranty facilities).

Appendix IV.A
Qualifying Loan Schedule for Loan Portfolio Guarantees

Guaranteed Party: ______________________________ (Institution)
USAID Operating Unit: __________________________ (Office or Mission)

Place Under Coverage Period: ________________ through ________________ (dates)
Final Date for Submission of Claims to USAID: ____________________ (date)

Page __________

Name of Borrower/ Brief Description of Loan Purpose	Date of Qualifying Loan (mm/dd/yr)	Loan Type	Date Placed Under Coverage (mm/dd/yr)	Maturity Date (mm/dd/yr)	Amount of Qualifying Loan		Date Removed From Guarantee Coverage (mm/dd/yr)	Days In Arrears (if any)	Principal Balance, End of Reporting Period in Local Currency
					In Local Currency	In U.S. Dollars (Estimate)			
	"Loan Date"	*Term Loan, Line of Credit, Overdraft, or Lease*	*Typically required to be within ten (10) days of Loan Date*	*"Expiration Date"*	*Amount should be listed in the corresponding currency (foreign and/or US$) of the DCA guarantee*				*"Outstanding Balance" of principal (excluding interest) as of the end of the quarter or semiannual period.*
				TOTAL (QUALIFYING LOAN AMOUNT)				**TOTAL** (END-OF-PERIOD BALANCE)	

Appendix IV.B– Notice of Payment Due

Agency For International Development
Office of Financial Management
Washington, D.C. 20523

Notice of Payment Due

Guarantee Facility:
Contact Person & Title:
Address:

Guarantee Commitment No.:
Notice Date:

<u>PAYMENT IS DUE 30 DAYS FROM "NOTICE DATE" AS FOLLOWS</u>:

	Local Currency	US Dollars
Past Due - Prior Period		
Current Amount Due		
Total		

Local Currency Stated in:
Billing Periods:
Calculation and Remarks:

Portfolio Balance		Local Currency	Exchange Rate	U.S. Dollars
Period Ended:	03/31/2001	A	D	A/D
Period Ended:	06/30/2001	B	E	B/E
Period Ended:	09/30/2001	C	F	C/F

Average Outstanding Balance for Local Currency = (A+B+C)/3; for US$ = (A/D+B/E+C/F)/3

Fee = Average Outstanding Amount x Semi-Annual Utilization Fee x Guaranteed Portion
Utilization Fee Due for Local Currency = (A+B+C)/3 x 0.50%/2 x 0.50, **or**
Utilization Fee Due for US$ = (A/D+B/C+C/F)/3 x 0.50%/2 x 0.50

Exchange rates used are official USAID rates based upon quarterly reports ("Treasury Reporting Rates of Exchange") issued by the U.S. Department of the Treasury.

Advise to Bank:

1. Please remit payment to the USAID Mission Controller in the local currency amount stated above (or if the payment is due in U.S. Dollars - via Electronic Fund Transfer to the Federal Reserve Bank).
2. Please include a copy of this Notice of Payment Due with the payment
3. For billing questions, please notify Office of Development Credit (G/EGAD/DC), Fax number XXX
4. For payment notification and submission of general receipt from USAID Mission, please notify the Paying and Transfer Agent.

Advise to Mission Controller:

1. Please deposit payment against appropriation XXX
2. Please send a cable to M/FM/LM and G/EGAD/CI to confirm receipt of payment.
   Please include on cable:
   - Bank name
   - Loan Portfolio Guarantee (LPG) Commitment Number
   - Billing Period
   - Both Local and US Dollar Amount
   - Date the payment was received

EXCEPTION REPORT
{FIRST STEP IN EARLY WARNING SYSTEM}

Exception Report **Due: Per Occurrence**

Responsibility: To be submitted by the Mission to the Washington-based Office of Development Credit

Purpose: Documentation on significant factors relating to financial performance of the DCA loan or loan guarantee. Information is used for monitoring, audit and coordinating collection efforts.

Date Prepared: ____________________

USAID Mission:
Contact Name/Title:

Facility Number:
Borrower or Lender Name:
Borrower/Lender Contact:

Nature of Issue:

Efforts Undertaken:

Resolution Strategy:

Please Submit Exception Report to the ODC at ___________________

Facsimile # 202 216 3593 or e-mail ___________________

Appendix IV.D– Delinquency Notice

DELINQUENT NOTICE{PRIVATE }

Date:

To: Name
Borrower/Intermediary
Address
Fax No.

From:

Subject: Reporting Requirements for the Periods Ending ___________
Under Facility No.: _______

This is a reminder that ____________ is delinquent on the required reporting for the quarters ending___________________. The required information, as stated in Article ______of the Standard Terms and Conditions of the Guarantee Agreement, is:

- A fully completed Qualifying Loan Schedule (QLS) that lists chronologically all loans under guarantee coverage from the inception of this facility through the aforementioned Reporting Period. Because the principal balance is used to calculate your fees, it is very important this form indicate the remaining principal balances of loans as of the reporting dates.
- A signed Certification form for quarters ending ______________
- A Transaction Report for each new loan under coverage that has not already been provided to us.

The documents for the period _____________ were due in this office_______________; the documents for the period ending _______________were due ___________. Please provide the required information as soon as possible so that this office may fulfill its own internal reporting requirements and prepare invoices for utilization fees.

If you have already mailed the information to this office, we appreciate your cooperation and ask that you fax a copy of the QLS to _________. Should you have any questions, please contact me at _____________ or at the previous fax number. Thank you for your help.