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# Credit Guarantees:

# How Credit Guarantee can solve Global Climate Change?

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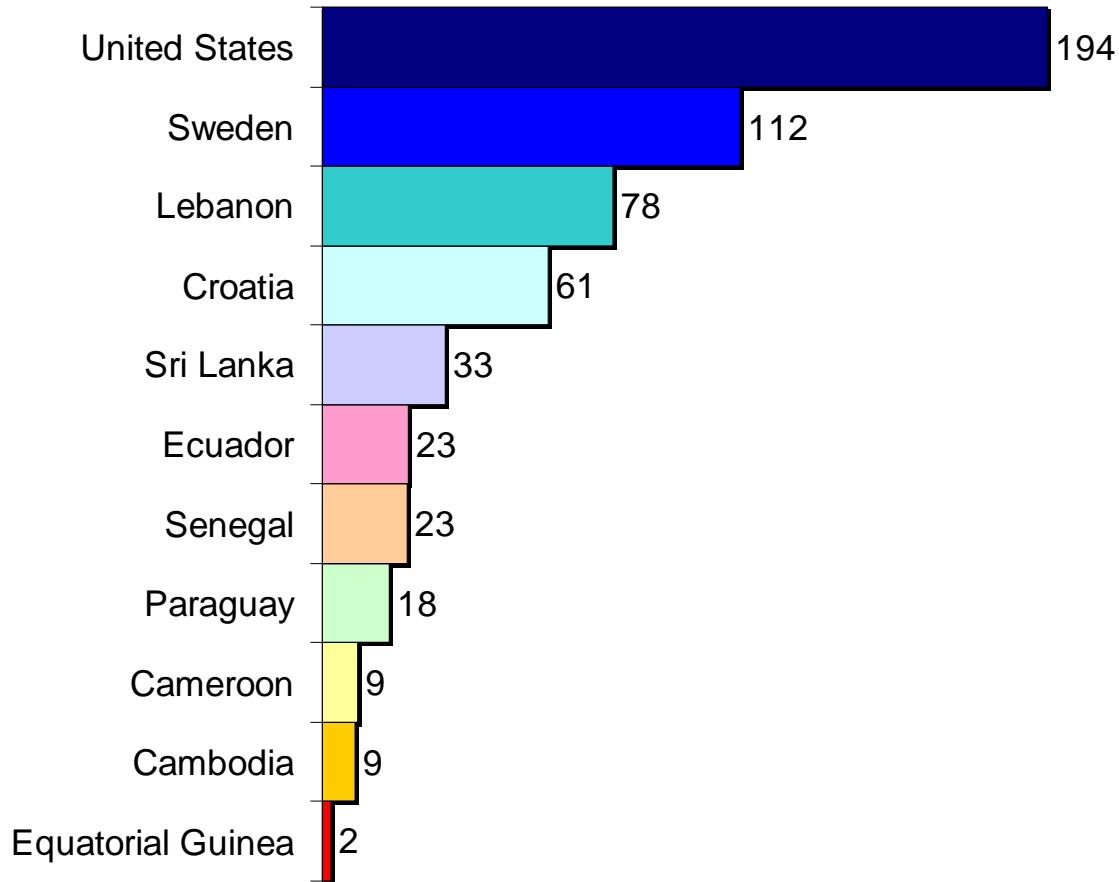
Office of Development Credit

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# Domestic Credit Provided to Private Sector

(as % of GDP)



Source: World Development Indicators, 2005



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# What is the Development Credit Authority (DCA)?

- Legal Authority for USAID to issue Credit Guarantees
- Provide up to 50% coverage on loan
- Guarantees backed by US Treasury



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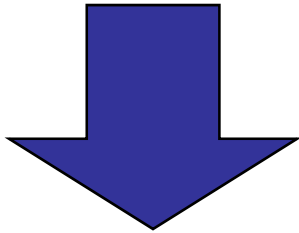
# Why does USAID offer Credit Guarantees?

- Encourage countries to invest in themselves
- Private sector resources mobilized
- Market demonstration effect; catalyst for growth of local credit markets
- Complement to technical assistance and policy reform
- Cost effective tool to engage in public-private partnership



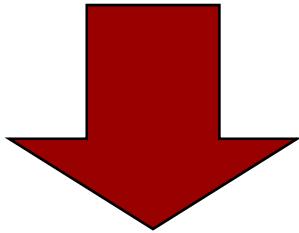
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# How do USAID partner banks use the credit guarantee?



## **Risk Perception**

(test viability of lending to new sectors/geographical areas)



## **Collateral Requirements**

(move toward cash-flow based lending or “untraditional” forms of collateral)

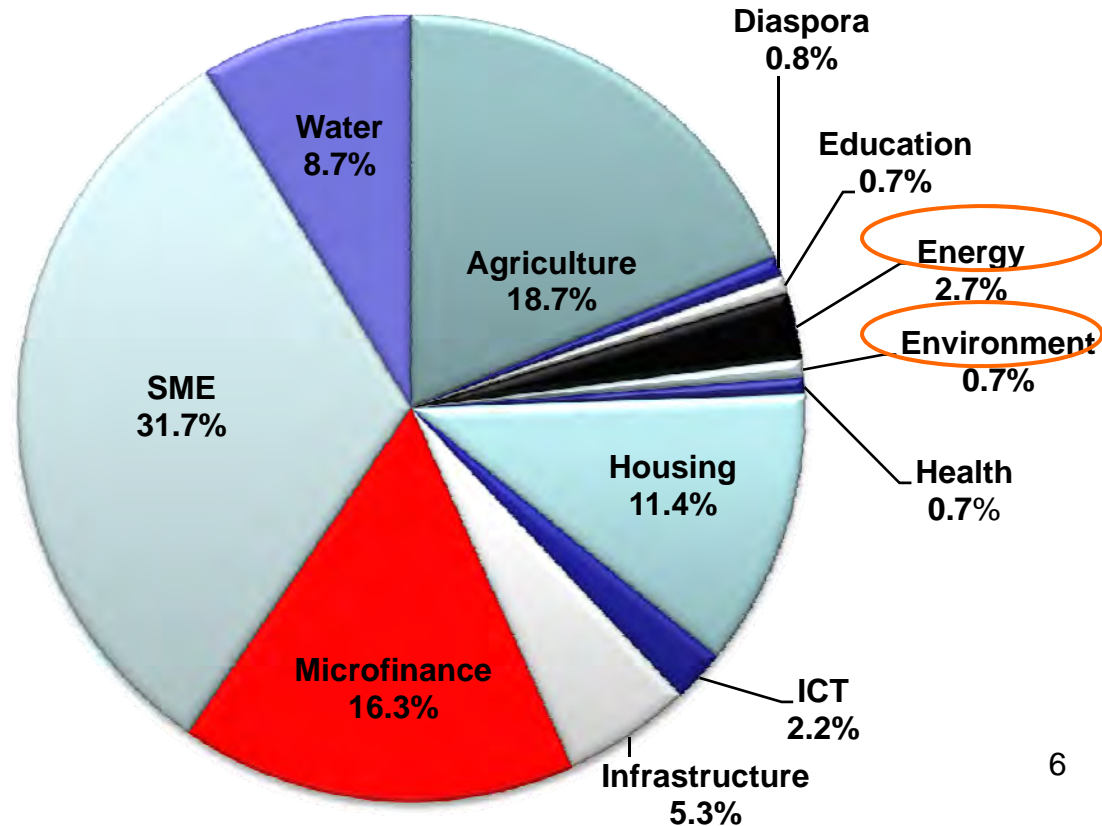


**Longer-term Financing**



# USAID Portfolio – Cumulative Overview

## DCA Portfolio - By Sector





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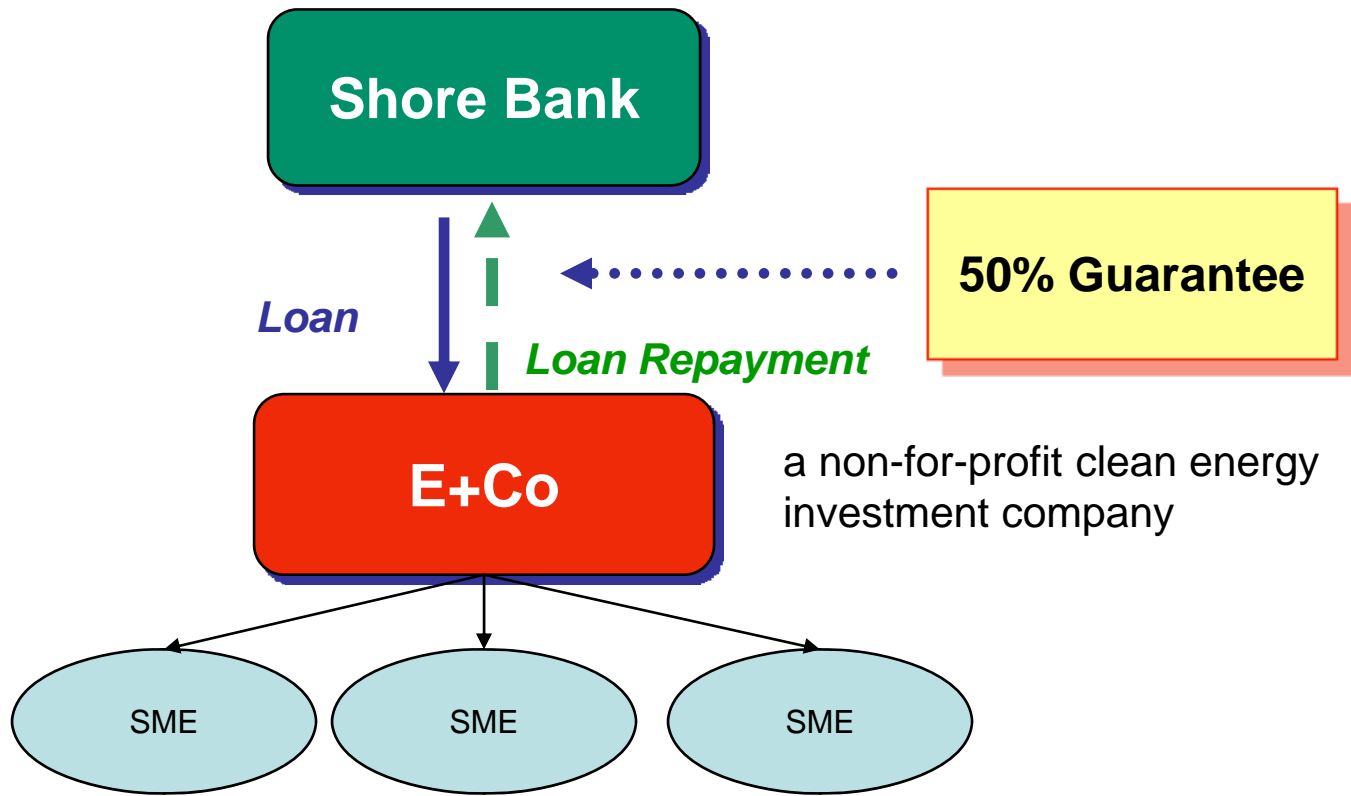
# How Credit Guarantees can Address Global Climate Change

- Billions of dollars are needed for global climate change. (e.g.: \$220 billion increase by 2020)
- Private sector's participation is indispensable.
- Carbon markets are attracting private investment.
- However, banks are reluctant to extend finance for novel projects, especially during the global financial crisis.
- USAID may be able to facilitate greater private sector investment by sharing risks.



# Case Study: Shore Bank

**DCA Loan Guarantee successfully enabled E+Co to extend loans to SMEs for clean energy projects in worldwide.**

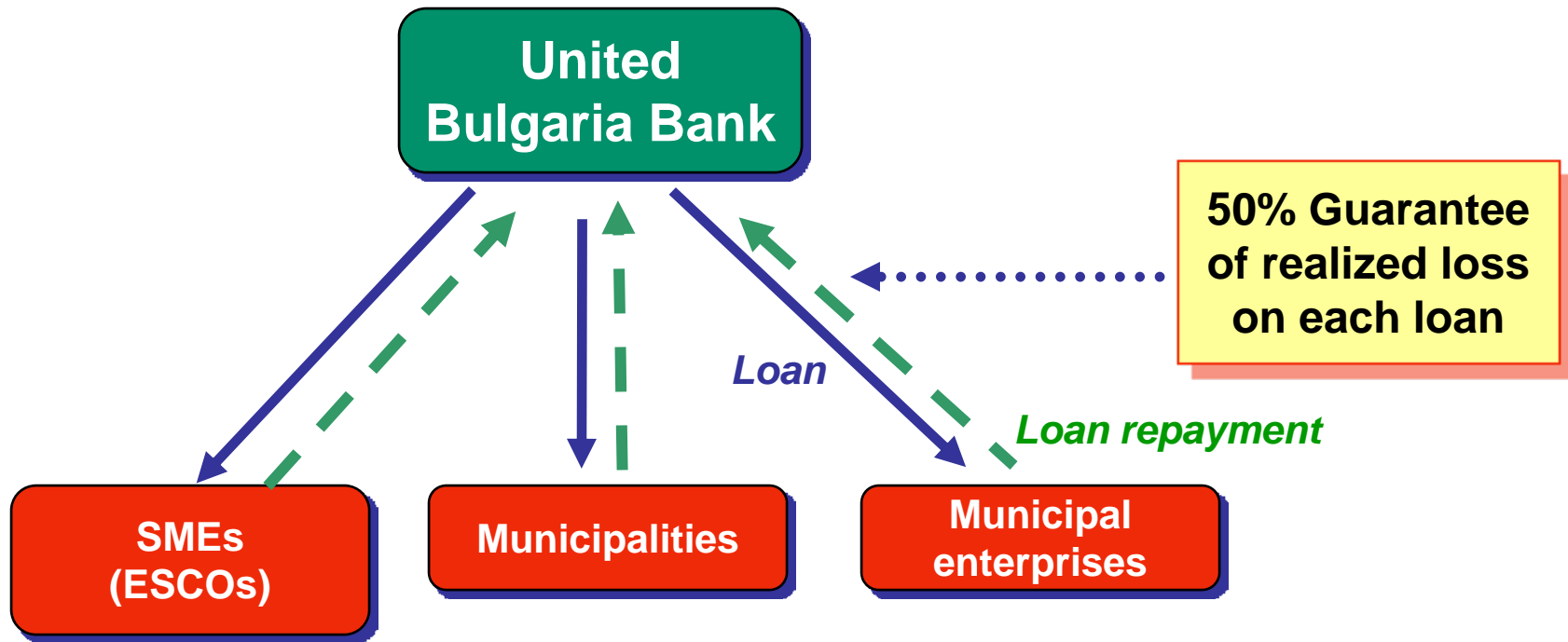


Clean energy projects (hydro, wind, solar thermal, solar photovoltaic, geothermal, liquefied petroleum gas and energy efficiency)



# Case Study: United Bulgaria Bank

In Bulgaria, DCA Loan Portfolio Guarantee successfully enabled SMEs (ESCOs) to access loan for financing energy efficiency projects.

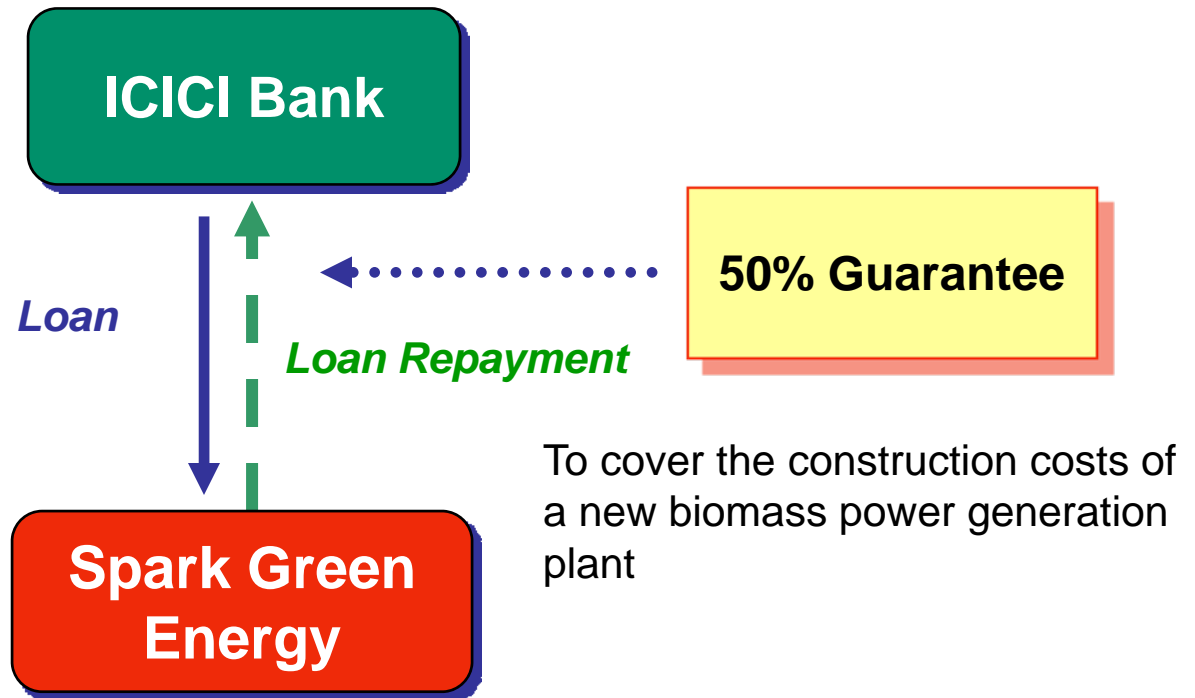


Energy efficiency projects (improve efficiency in heating networks and end-use facilities)



# Case Study: ICICI Bank

**DCA Loan Guarantee to support a Greenfield biomass power plant in India.**



Reinforces state policy that at least five percent of energy must be sourced from renewable energy



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## Next Steps

- Change in USG Strategy on Global Climate Change
- Coordinate with other climate change initiatives (e.g. environmental funds, donor programs, etc.)