USAID
FROM THE AMERICAN PEOPLE

DCA LOAN GUARANTEE HONDURAS

IMPACT BRIEF

Cover Photo: Water purification was among the sectors that benefited from loans under the DCA Guarantees. Photo by USAID/Honduras

BACKGROUND

In 2003 more than 60 percent of the Honduran population was living in rural areas. Seventy-five percent of rural households fell below the poverty line, which translates to roughly 442,000 families, encompassing more than 2 million citizens.

ABOUT DCA

USAID's Development Credit Authority (DCA) was created in 1999 to mobilize local private capital through the establishment of real risk sharing relationships with private financial institutions in USAID countries. The tool is available to all USAID overseas missions and can be used as a vehicle for providing much needed credit to an array of enterprises and underserved sectors. This Impact Brief examines the findings from an evaluation of two guarantees to the same lender in Honduras. The evaluation in Honduras is part of a set of evaluations that EGAT/DC is undertaking in different countries, to test a series of developmental hypotheses related to the DCA guarantees.

At the same time, agricultural activities represented 23 percent of the country's Gross Domestic Product (GDP) and employed more than 35 percent of the workforce. However, many micro- and small-sized farmers lacked access to affordable credit.

For several years with support from USAID and others, the José Maria Covelo Foundation (FJMC) had played a leadership role in Honduras in providing credit to micro- and small entrepreneurs (MSEs), primarily in urban areas. FJMC officers had been instrumental in forming the Microfinance Network of Honduras (REDMICROH), and otherwise promoting growth of the sector. The FJMC decided improving access to credit for farmers was an urgent priority for development. However, the organization lacked hands-on knowledge about agricultural credit products and risks.

Seizing the opportunity to help the Covelo Foundation realize its full potential to generate economic growth and reduce rural poverty in Honduras, in 2003 and again in 2005 USAID signed a partial credit guarantee with the Foundation. Through DCA, USAID agreed to cover 50 percent of FJMC's net loss on principal for guaranteed loans, up to defined ceilings. Loans were for micro- and small-sized entrepreneurs (MSEs) engaged in any of four sectors: (1) non-traditional agriculture or agro-industry, (2) wood products, (3) specialty coffee, and (4) light manufacturing.

EVALUATION OBJECTIVES

In 2009 the Office of Development Credit in the Economic Growth, Agriculture and Trade Bureau (EGAT/DC) commissioned an evaluation of the two guarantees to determine their outputs, outcomes, and impact. Outputs of the guarantee are defined as additionality of loans disbursed, as they differ from credits previously being offered by the partner lender. Outcomes are sustained changes in the partner lender's behavior, attributable to the lender's experience using the guarantee. Impact is the demonstration effect on the market, measured by how competing financial institutions have been influenced by the partner lender. Attribution of results is influenced by exogenous factors, also identified in the evaluation.

EVALUATION METHODOLOGY

The evaluation team used a mixture of quantitative and qualitative methods to answer the evaluation questions, including a review of background documents and the CMS database, semi-structured interviews with FJMC officials and other stakeholders in Honduras, and an email-based survey of members of the REDMICROH. The team created an evaluation framework with indicators and interview questions to guide the evaluation.

COVELO DCA LOAN GUARANTEES

Starting Year	Ending Year	Maximum Authorized Loan Amount	Number of Loans *(as of 9/2008)*	Aggregate Amount of Loans	Utilization Rate	Average Loan Size
2003	2009	$1,000,000	279	$ 999,926	99.99%	$3,584
2005	2012	$2,000,000	565	$ 1,824,669	91.23%	$3,230

KEY FINDINGS AND CONCLUSIONS

OUTPUT

Conclusions The Covelo Foundation had a clear strategy on how to use the DCA facility: to reduce risk while it entered the agricultural market. Guaranteed loans have permitted FJMC to lend to farmers who had less collateral than traditional borrowers, and in the micro-credit sector to entrepreneurs for comparatively larger microloans on longer and more favorable terms than FJMC's nonguaranteed loans. FJMC loans helped at least some of the borrowers to increase their incomes. Moreover, FJMC managed to leverage guarantee resources obligated by the U.S. Government, at a ratio of 20.1 to 1.

Findings in support of these conclusions include:

- In 2003, prior to the signing of the first DCA guarantee agreement, the Covelo Foundation's lending to the agriculture sector was virtually zero. By March 31, 2009, outstanding loans to this sector carrying the DCA guarantee represented more than $222,000 – about 8.5 percent of the FJMC's total active portfolio.
- The FJMC's General Manager explained that loan officers used the DCA guarantees to mitigate the risk of lending to what was for them a new sector: agriculture.
- In the agriculture sector, FJMC loans carrying the guarantee are generally smaller and of shorter duration than loans that do not carry the guarantee. An FJMC official explained that this is because they use the DCA facility to guarantee credits to borrowers who have relatively less collateral to offer.
- In the microcredit sector, DCA guaranteed loans are generally larger, have a longer tenor, and carry a lower interest rate than nonguaranteed FJMC loans. An FJMC official explained that this is because, in keeping with the intent of the DCA guarantees, the FJMC uses the facility to guarantee investment-oriented microloans, not microloans for working capital.
- A sample of nine of the 53 individuals who had received at least three credits with the DCA guarantee showed average increases to their total income of 46 percent a year.
- As of September 30, 2008, the total DCA obligation of $140,800 had leveraged the equivalent of $2.83 million in loans, for a leveraging ratio of 20.1 to 1.

DCA SUCCESS

Remburto Alonso Betancourth L. began borrowing in March 2005, with two guaranteed loans of $2154 each, with tenors of five months or less. He progressed to larger guaranteed loans, including three worth more than $13,000 each, with tenors of 10 months to a year.

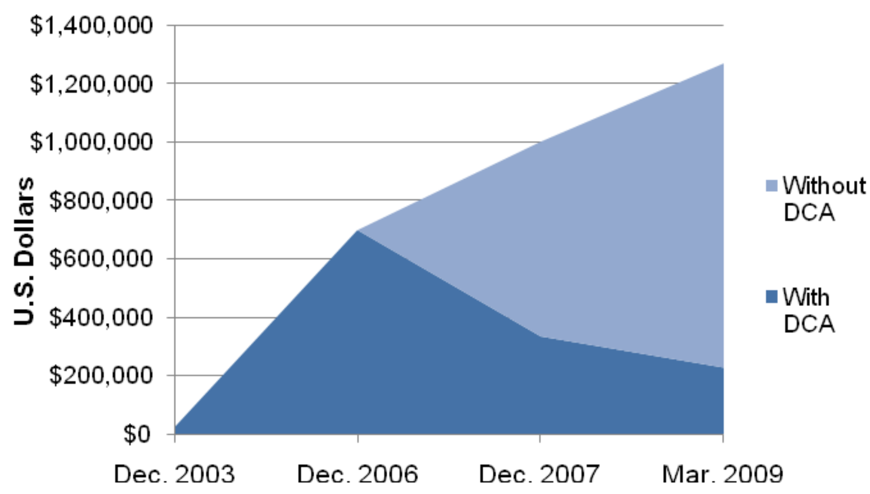
OUTCOMES

Conclusions The DCA guarantees to the Covelo Foundation achieved their goals of increasing lending to the agriculture sector and helping FJMC to expand and move up market. The DCA guarantee helped both the Covelo Foundation and Bancovelo jumpstart their lending to the agricultural sector. They have expanded access to credit in this sector for their customers by increasing the number of loans available, the average size and tenor of those loans, while keeping interest rates low. The FJMC became increasingly confident in risking its own capital in the sector without a guarantee. Rapid increases in agricultural lending have helped them become a significant actor in the agricultural microcredit sector.

Findings to support these conclusions include:

- Beginning in 2007, while the Covelo Foundation continued to expand its agricultural portfolio, a progressively smaller proportion of the loans carried the USAID guarantee.
- According to Covelo officials, by 2007 the Covelo Foundation had developed financial products and procedures suited to the sector and established financial relations with farmers, which helped it expand its non-guaranteed portfolio.
- As of the end of March 2009, only 13.2 percent of the combined agricultural portfolio of the Covelo Foundation and Bancovelo carried the DCA guarantee.
- The March 2009 average nonguaranteed agriculture loan from the Covelo Foundation was more than twice the size of a DCA guaranteed loan.
- The length of the Covelo Foundation's average nonguaranteed agriculture loan increased 50 percent between December 2006 and March 2009.
- Average nonguaranteed agriculture loan interest rates remained below those for microcredit and mostly below those for SME loans.
- Eight people who initially received a DCA-guaranteed loan from the Covelo Foundation subsequently obtained housing loans from Bancovelo.
- At least one farmer who initially borrowed under the DCA guarantee subsequently obtained a non-guaranteed agricultural loan from Bancovelo.
- Several individual entrepreneurs have progressively worked up to larger loans and/or loans with a longer tenor under the DCA guarantee.
- As of June 30, 2008, the Covelo Foundation and Bancovelo's combined agricultural portfolio represented 13 percent of the agricultural/forestry lending reported by members of the Honduran Microfinance Network, REDMICROH, placing it in fourth place among members of the Network.

COVELO AGRICULTURAL PORTFOLIO (DEC. 2003 - PRESENT)



IMPACTS

Conclusion The Covelo Foundation's DCA-supported agricultural sector lending helped facilitate the entrance of another microfinance organization (MFI) into the agricultural sector.

Findings to support these conclusions include:
ADICH, an MFI, began to report offering micro-credit to farmers only in June 2005, after the DCA program had begun. A representative indicated that a packet of operational information was an "important factor" in his organization's entrance into the agricultural credit market. The packet, regarding agricultural credit, had been developed by the Covelo Foundation and based largely on the Foundation's experience with DCA-supported agricultural lending.

This publication was produced for review by the United States Agency for International Development. It was prepared by SEGURA/IP3 Partners LLC under SEGIR Global Business, Trade and Investment II – IQC Indefinite Quantity Contract, Number EEM-I-00-07-00001-00 Task Order # 04, Development Credit Authority Evaluation.

CONTACT INFORMATION

U.S. Agency for International Development
Office of Development Credit
1300 Pennsylvania Avenue, NW
Washington, D.C. 20523
http://www.USAID.gov
Keyword: DCA