



DEVELOPMENT FINANCE

Project Finance • SME and Microfinance
Trade & Investment Finance

PROJECT APPROACH

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Central to the development of any economy is an active financial and investment community to finance local businesses, entrepreneurs, and projects. Many developing countries, however, lack a vibrant capital markets system. Banks and investors maintain conservative lending and investment policies, constraining business activity. TCGI works extensively with governments, nonprofits, and businesses to structure sound business financing activities/programs in developing countries. Our approach on project finance, small and medium enterprise and microfinance, and trade and investment finance is to:

Design sustainable projects. We believe all successful business finance projects must meet two requirements: economic and financial viability, to be sustainable in the long term. Our project work is characterized by:

- **Rigorous financial analysis.** As part of our due diligence process, we perform extensive financial analysis on the project to ensure financial viability. As the primary economic and financial advisers to the USAID Development Credit Authority (DCA), we are experienced professionals in evaluating businesses and projects in the context of a developing market. Our evaluation work ranges from: microfinance feasibility studies to project finance valuations.
- **Market-based solutions.** TCGI believes in utilizing the “markets” where possible to engage the private sector in participating in the activity, whether as an investor, lender, or guarantor. Not only is the private sector a source of capital, but also a tool for increased accountability. By tying the project to the private sector, projects are generally forced to adopt more stringent business practices. In financing a water project in Jamaica, for example, commercial loans were encouraged to supplement government-related financing.
- **Multilayered financing.** Recognizing that many of the investment activities we work with are perceived to be risky by local banks and investors, TCGI, where necessary, spreads risk amongst several private sector players. In doing so, we are able to lower the risk of any one individual investor and make the investment opportunity more attractive. In the refinancing of loans made by the Tamil Nadu Urban Development Fund, we structured a multilayered deal to make the transaction attractive for investors.
- **Portfolio management.** We also engage in the monitoring of projects and programs to ensure projects are operationally sustainable. As the portfolio managers of the USAID Development Credit Authority and Micro-Small Enterprise Development programs, we are experienced in compliance, reporting, and workouts. We manage a USAID portfolio well over US\$650 million and 100+ credit agreements.

Leverage private sector resources. Our approach to business finance centers on leveraging private sector resources where possible. In structuring projects, we actively engage the local capital markets to encourage local participation in the project. Our domestic and international work on the

Ecolinks program to promote international trade and finance leverages private sector resources through corporate donations and service fees. To leverage private sector resources in development finance, we use:

- **Credit enhancements/guarantees.** We utilize the DCA guarantee facility extensively to provide principal risk sharing with the private sector. The guarantee program will cover up to 50 percent of principal risk on an investment. In Latin America, we worked with Conservation International and Starbucks to structure a loan guarantee to support conservation coffee farmers. In Africa, we worked with a USAID Kenya to provide financial organizations a guarantee on a portfolio of loans to support local SMEs.
- **Risk management tools.** To facilitate private sector investment, we promote the use of appropriate risk management practices, including risk assessments and credit ratings to assist private sector investments. Our work has included: improving the credit rating for a bond insurer in the Philippines and establishing credit ratings for an Indian municipalities. Our risk assessment work has extended to USAID where we helped the organization develop a comprehensive risk assessment manual and conduct risk assessments on projects.

Advance local capacity. The strength of TCGI's work around the world is our emphasis on promoting self-sufficiency. The most sustainable development projects are those that continue after we leave. We incorporate local capacity building in all our projects through the creation of enabling conditions and sharing of knowledge. Our capacity building work is both formal and informal:

- **Create enabling conditions that encourage private sector participation.** Central to the development of local capacity is creating an environment that supports private sector investment. We work with governments on a formal level to achieve legal and regulatory changes and increase the capacity of financial, regulatory, and governmental institutions. We have: (1) improved legal and regulatory frameworks to increase the ability of municipals to access loan for water and solid waste collection in India, and (2) enhanced borrower disclosure requirements and regulations to attract investors and depositors in Columbia, Mexico, and Guatemala.
- **Provide technical assistance and training to develop local understanding and capacity.** We believe the best method in advancing local capacity is knowledge sharing, both formally and informally. We work closely with all of our partners, from the sponsor organization and financial intermediary to the development agency and government officials to not only solicit their input and feedback but also to impart what we know to stimulate discussion and ideas. We are active in training individuals and organizations on: innovations in development tools, best practices in financial analyses, appropriate risk management techniques, and the like.

USAID DCA

TCG International provides in-house technical assistance and support to the USAID Office of Development Credit (ODC), which manages the Development Credit Authority (DCA). DCA is USAID's primary credit program, supporting development initiatives globally through the use of loan and bond guarantees. The credit program gives USAID Missions and Bureaus the ability to issue partial guarantees to private lenders covering up to 50 percent of risk on loans for projects that advance Mission's Strategic objectives. Services provided by TCGI to ODC include: policy and planning, project development, credit risk analysis, portfolio management, and institutional support.