Report on DFC's Progress in Northern Triangle/Central America

2023

Submitted Pursuant to H. Repts. 117-401 and 118-146

Introduction

To fulfill its twin mandates of facilitating private sector development and furthering the foreign policy interests of the United States, DFC is committed to promoting inclusive economic growth in Northern Central America. This effort is critical in El Salvador, Guatemala, and Honduras, countries that share challenges that limit economic opportunity and drive irregular migration.

DFC's investments in Northern Central American countries are implementing U.S. policy objectives to address economic insecurity and inequality through a range of projects across sectors, particularly in regions with high rates of migration. DFC's work in these countries centers around catalyzing private sector investments that create jobs, provide opportunities for underserved populations, and spur economic growth. To realize these goals, DFC leaders have visited the region to develop business leads, commit deals, and engage with government counterparts. DFC has invested over $249 million in transactions in Guatemala, El Salvador, and Honduras since July 2022.

Section 1: Mission and Sector Priorities

Under the BUILD Act, DFC is called to invest into highly developmental projects funded by private sector partners, with the intention of being a catalyzing force to develop countries' respective private sector environments. Although DFC is required by mandate to work exclusively with private sector partners, it is an important entity for developing and strengthening the bilateral relationships between the United States and developing nations around the world. DFC offers countries a partner that can help mobilize and catalyze private sector investment, and a path to financing its internal development without the need to assume additional sovereign debt. Additionally, DFC offers a viable alternative to exploitative financing from authoritarian states and the ability to finance private sector-led developmental projects that meet high financial, environmental, social, and labor standards.

DFC continues to play a significant role in the U.S. government's efforts to promote prosperity and stability in Northern Central America. DFC's partnerships with the private sector are helping improve investment climates and development finance opportunities in these countries where poverty, food insecurity, and limited social and economic mobility are prevalent and are factors that drive high rates of migration from the region.

Since July 2022, DFC has prioritized investments in financial institutions that provide on-lending to small and medium-sized enterprises (SMEs) to provide financing to businesses in rural areas with high rates of migration, to women entrepreneurs, and to businesses focused on climate mitigation. SMEs in Northern Central America account for most of the formal and informal economy in these countries and yet they are constrained by financing gaps of about $14.2 billion in Guatemala, $2.1 billion in El Salvador, and $3 billion in Honduras. DFC remains committed to working with private sector partners to support these small businesses that contribute to significant portions of their countries' GDP.

DFC's leaders have also visited the region to promote the agency's mission and tools, develop new partnerships, and generate business leads. In his first trip to the Western Hemisphere as DFC head, CEO Scott Nathan traveled to Honduras in July 2022 followed by COO Agnes Dasewicz, who visited Guatemala in November 2022.

Section 2: Anti-Corruption Mechanisms

The mechanisms DFC utilizes for safeguarding the support it provides from corrupt influences are more comprehensively described in the recent "Report of the U.S. International Development Finance Corporation on Anti-Corruption" submitted pursuant to House Report 117-401.

As discussed in that Report, to mitigate this risk, DFC seeks out partners who incorporate values of honesty and integrity into their business practices. Collaborating with stable and reputable private sector entities ensures that financial resources are used in accordance with their intended purposes, development objectives are met, and investments succeed. DFC includes policies, procedures, and tools within its risk management framework to manage integrity risk and the adverse reputational impact that could arise in the event that corruption is associated with DFC's projects.

DFC policies and procedures designed to address these concerns are set forth primarily in the "Know Your Customer" (KYC) Policy Manual (KYC Manual), which are reinforced by the provision of advice and training through the Office of the General Counsel and the Office of the Chief Risk Officer. The KYC process is complemented by the contractual provisions that DFC seeks to include in its legal documentation for transactions that it supports. These provisions require clients to adhere to DFC's integrity standards and provide appropriate remedies to enable DFC to respond to any instances of fraud, corruption, money laundering, sanctions violations or terrorist financing.

DFC addresses integrity risk both during the origination phase of a project and on an ongoing basis through a variety of monitoring mechanisms. Please refer to the above-referenced Report for further detail on the mechanisms DFC utilizes to address corruption risk.

Section 3: Transactions Committed Since July 1, 2022

- **Banco Promerica – Guatemala – Q4 FY 2023:** An up to $45 million loan to Banco Promerica, S.A. in collaboration with USAID/Guatemala will support lending to SMEs and women entrepreneurs in Guatemala, with a focus on women-owned and -led SMEs and SMEs outside of Guatemala City.

- **BAC – El Salvador – Q3 FY 2023:** In collaboration with USAID/El Salvador, a $60 million loan to Banco de América Central (BAC) will expand the bank's support for Salvadoran SMEs, especially those investing to address climate change.

- **Banco Atlántida – Honduras – Q3 FY 2023:** A loan up to $80 million to Banco Atlántida to expand its on-lending facility to SMEs in Honduras, one third of which will be women-owned or led businesses or provide a service that benefits women.

- **Pomona Impact Fund – Regional – Q3 FY 2023:** A $7.5 million equity investment in Pomona Impact Fund II LP will provide growth capital to small businesses in Guatemala, El Salvador, and Honduras, among others, involved in sustainable agribusiness, digital connectivity, and health, with an emphasis on women-owned and managed businesses.

- **Banco de America Central – Guatemala – Q2 FY 2023:** In collaboration with USAID/Guatemala, a $12.5 million DFC loan portfolio guaranty for Banco de América Central, S.A. will support the Guatemalan bank to extend loans to SMEs with an emphasis on those operating in rural areas of the country.

- **BAC Credomatic – El Salvador – Q4 FY 2022:** In collaboration with USAID/El Salvador, a $17.5 million loan portfolio guaranty will enable BAC Credomatic ES to provide loans to small and medium businesses, with a focus on women borrowers.

- **Banco Azul – El Salvador – Q4 FY 2022:** In collaboration with USAID/El Salvador, an $18.2 million loan portfolio guaranty for Banco Azul will promote lending to small businesses in El Salvador and help empower women in the economy.

- **Multi Inversiones Banco Cooperativo de los Trabajadores – El Salvador – Q4 FY 2022:** A $9 million loan portfolio guaranty for Multi Inversiones Banco Cooperativo de los Trabajadores, S.C. de R.L. de C.V. will fund the expansion of the bank's consumer loan portfolio specified for microbusinesses, home improvement, education expenses, and healthcare expenses in El Salvador.