Development Finance Institution

FY 2019 Congressional Budget Justification

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Executive Summary – A Stronger, Reformed, DFI in Support of Development and National Security Goals

The President's Fiscal Year 2019 Budget proposes to consolidate multiple U.S. development finance functions, such as the Overseas Private Investment Corporation (OPIC) and USAID's Development Credit Authority (DCA), into a new, standalone, Development Finance Institution (DFI) with strong linkages to the State Department and USAID. The Administration looks forward to working closely with Congress on the authorization and appropriations for this new entity.

With a new DFI, the United States will be better placed to advance development and national security policy goals in the developing world, which is critical for promoting American prosperity and national security. Compared to the status quo, the DFI will be better aligned with development and national security goals, designed to better manage U.S. taxpayer risk, streamlined to increase effectiveness and operational efficiencies (making more funding available for programming), focused on mobilizing private sector funding, and modernized with a 21st century toolkit that allows the DFI to compete and cooperate globally.

The new DFI will combine the resources and expertise of OPIC and DCA, and will extend and modernize its toolkit. The Budget requests $94 million for DFI administrative expenses. This level will support 300 FTEs, and assumes the consolidation of current OPIC staff and current DCA staff and efficiencies that may be gained by consolidating activities. This level also includes funding for the DFI to administer USAID's sovereign loan guarantee and legacy credit portfolio, currently managed by DCA at USAID.

In addition, the new DFI funding request includes more program funding to leverage private sector investment. For example, in FY 2017 OPIC and DCA together obligated $46 million to support loans and loan guarantees. The 2019 Budget requests $94 million, more than double the FY 2017 level, to support DFI expanded programming.

The DFI will have reformed and modernized tools so that it is more interoperable with partners, while adhering to the key principles of not displacing private sector resources and mitigating risk to the US taxpayer. The DFI will have similar tools to OPIC and DCA today, e.g. loans, guarantees, and insurance; in addition, the DFI will be able to support development finance related feasibility studies and other tools as authorized.

The DFI will have an updated governance structure and more "connective tissue" with State and USAID to the prioritization of projects that are critical ensure national security and developmentally impactful. The connectivity will drive better pipeline and programming coordination amongst USG agencies. For example, in a high-priority country, we envision complementary activities that could entail having the DFI support a feasibility study and subsequent early-stage financing for a new project, while USAID funds economic-policy reforms that strengthen the enabling environment and attracts more private-sector investment. To cement this alignment, the Budget requests $56 million in resources for State/USAID programming (and other transfer authorities) to support activities, such as grants for technical assistance or “wrap-around” services, that complement and support the DFI’s project-specific investments.

The new DFI governance structure will ensure U.S. Government investments catalyze, but do not displace, the private sector, and will better manage taxpayer risk. For example, the Budget proposes annual loan limitations, in addition to an overall exposure cap. The Budget also requests significantly expanded funding for inspections, evaluations, and oversight of the DFI.

The Administration expects modest savings from eliminating redundancy of efforts in development-finance programs, such as risk-management, credit modeling, and servicing. These savings will allow the DFI to allocate more effort to its mission than to duplicative overhead activities.

Currently, both OPIC and DCA are re-authorized annually in appropriations bills, which causes uncertainty for their potential private sector partners. OPIC has operated for the last 15 years without significant legislative updates. Likewise, DCA has operated for over 18 years without any significant update or expansion of its original authorities. As a result, these institutions lack the modern, development-finance mechanisms needed to counter the state-driven model of countries like China, or to cooperate with DFIs of our allies like the United Kingdom, Germany, Canada, and Japan, who are investing heavily throughout the developing world. Working with Congress, the Administration hopes to shape legislation that provides a multi-year authorization, to reassure U.S. businesses and allies that the U.S. Government will continue to co-invest with the private sector to increase global development and support countries’ journey to self-reliance.

Policy Context for DFI Proposal

The 2018 President’s Budget proposal to wind-down OPIC helped catalyze fresh thinking about how the U.S. Government provides development finance. The President’s Executive Order on a Comprehensive Plan for Reorganizing the Executive Branch built on this momentum, and presented a unique opportunity to further examine the U.S. Government’s development-finance tools across multiple, Departments and Agencies, and discuss whether we are using them for maximum impact.

In November 2017, before the Asia-Pacific Economic Cooperation (APEC) Summit in Vietnam, the President committed to reforming U.S. development-finance institutions "so they better incentivize private-sector investment" and "provide strong alternatives to state-directed initiatives that come with many strings attached."

The President’s National Security Strategy prioritized efforts to catalyze private sector activity and the mobilization of resources to developing countries:

“Today, the United States must compete for positive relationships around the world. China and Russia target their investments in the developing world to expand influence and gain competitive advantages against the United States. China is investing billions of dollars in infrastructure across the globe. Russia, too, projects its influence economically, through the control of key energy and other infrastructure throughout parts of Europe and Central Asia. - The United States provides an alternative to state-directed investments, which often leave developing countries worse off. The United States pursues economic ties not only for market access but also to create enduring relationships to advance common political and security interests….

“Across Africa, Latin America, and Asia, states are eager for investments and financing to develop their infrastructure and propel growth. The United States and its partners have opportunities to work with countries to help them realize their potential as prosperous and sovereign states that are accountable to their people. Such states can become trading partners that buy more American-made goods and create more predictable business environments that benefit American companies. American-led investments represent the most sustainable and responsible approach to development and offer a stark contrast to the corrupt, opaque, exploitive, and low-quality deals offered by authoritarian states.”

Over the course of several months, the Office of Management and Budget and the National Security Council convened a robust interagency dialogue that included input from the Department of State, USAID, and OPIC as well as the Departments of Treasury, Commerce, and others. The interagency working group observed that outdated legal authorities and fragmented interagency coordination hamper the U. S. Government’s current ability to deploy development finance. With this in mind, the group developed a proposal for streamlining and consolidating U.S. development-finance functions to improve efficiencies, reform programming, and help advance U.S. foreign-policy goals while achieving greater development impacts through commercially viable deals.

DFI Mission

The DFI will provide modern, coordinated and efficient development-finance mechanisms that can support economic growth and development outcomes in the developing markets, advance U.S. national-security interests, and support the creation of U.S. jobs.

DFI Objectives

It is in the interest of the United States to have modern, coordinated, flexible, efficient, development-finance mechanisms that produce measurable development impact. Promoting sustainable economic growth in developing economies is key to continued American prosperity and national security. Increasingly, the private sector is playing a critical role in promoting development. America’s allies and competitors, such as China, Germany, France, the United Kingdom, the Netherlands, Spain, Norway, and Japan - all have their own DFIs that work to expand investment in emerging markets. Americans know that business is the engine of economic growth, and that only market forces can sustain a trajectory of genuine economic progress. Accordingly, the Budget proposes sufficient resources and authorities to engage the American business community in advancing America's development and foreign-policy goals.

Leveraging private-sector resources to promote economic growth in poor countries helps extend American influence, and reinforces the importance of American values, such as the rule of law and fair business practices, and will lead to more sustainable development. Emerging trading partners that adhere to free-market principles and provide transparent, rules-based governance today, will provide a market for American goods and services tomorrow.

The United States must compete, however, for these positive outcomes. Other countries are seeking to project their economic and geopolitical influence. China, for instance, has dedicated the vision and the resources to initiate long term efforts to invest over $1 trillion in Eurasia, Africa, and Latin America. This does *not* mean that the United States should meet competitors at the lowest common denominator, or engage in practices that could distort markets. Rather, the United States should use development finance to pursue development and national-security objectives, while projecting U.S. values and norms, and promoting responsible business practices in partner countries. These relationships will, over the long term, strengthen the geopolitical position of the United States, and provide the economic foundation for future alliances.

The objectives of the modernized DFI:

Advancing U.S. Government development and national security objectives

- Deploy development finance to support economic growth as part of a long-term strategy to transition countries toward self-sufficiency;
- Coordinate with U.S. firms to facilitate new market entry, when appropriate;
- Align development finance as a core tool of U.S. national security, including as a counter to the rise of other countries' influence in developing markets; and
- Promote sustainable and economically responsible policies that help partner countries on their own journey to self-reliance and prosperity.

Catalyzing investment, while ensuring additionality to private sector resources

- Avoid displacing private-sector investment by deploying development finance in selective circumstances where markets are otherwise unable to attract quality, stand-alone private capital;
- Assure private-sector beneficiaries are sharing an appropriate level of risk alongside the U.S. Government; and
- Encourage mobilization of host-country domestic resources in new private-sector-led combinations of U.S. capital and skills.

Benefits to the U.S. economy

- Provide preferential support for investments by U.S. companies/investors on projects that meet U.S. development and national-security objectives; and
- Build well-functioning markets to facilitate the improvement of U.S. trade with the fastest-growing areas of the world.

Operational efficiency and effectiveness

- Ensure continued private-sector focus with a specialized finance skill set;
- Modernize the tool kit of financial instruments available to the DFI;
- Reduce the fragmentation of development-finance efforts across the U.S. Government, and achieve cost savings; and
- Improve coordination of both development finance and foreign-assistance tools that can be used in proposed projects, so as to enhance the speed of implementation.

The Administration supports better coordination among Departments and Agencies that mobilize private-sector resources internationally and work with U.S. businesses to support development finance or U.S. export-promotion. These institutions include not only OPIC and USAID, but also other U.S. Government Departments and Agencies, such as the Export Import Bank; the Department of State, Treasury, and Commerce; the Millennium Challenge Corporation; and the U.S. Trade Representative. The coordination will take place at both the policy and project levels.

DFI Tools

A key objective for the development-finance modernization project is to reform existing development-finance tools. These modernized tools and authorities will go further to ensure development finance is additional to the private sector, and that U.S. Government development finance as a whole will be more strategic. The DFI should maintain the authority to engage in the core existing financial instruments of lending, guarantees, and insurance, with appropriate updates to modernize them. As the DFI evolves to meet new challenges, the Administration could propose additional authorities.

As a general matter, the Administration proposes that the DFI's tools should adhere to the following policy principles:

- Achieve the policy goal with mitigated risk to the U.S. taxpayer;
- Partner with the private sector through co-financing and structuring to share risks;
- Ensure development finance is additional to private-sector resources by mobilizing investment that would not otherwise have occurred;
- Limit the concentration of risk, and diversify the overall exposure of the DFI's portfolio;
- Enhance the comparability, competitiveness, and compatibility of the U.S. development-finance toolkit with the tools available to DFIs from other countries; and,
- Provide alignment with broader U.S. Government development-finance policy, such as by supporting debt-sustainability goals in partner countries.

DFI Governance and Institutional Linkages

Strong governance is necessary to improve policy alignment and coordination, to oversee the DFI, and to strengthen its accountability. Relevant U.S. Government and Agencies will have representation on the Board, including the Department of State, Treasury, Commerce, USAID, and the DFI itself. The Board of Directors will also have private-sector participation. The DFI's governance will ensure the alignment of the DFI's policy and strategy with the President's *National Security Strategy*, including its development objectives.

To further linkages with U.S. Government national security and development policy, the DFI will integrate its strategy and administration processes with those of the State Department and USAID. The goal is for the DFI, USAID, and relevant interagency stakeholders to plan and program jointly technical assistance in support of specific development-finance projects, and to strengthen the enabling environment for private sector investment.

Budget Request

The President's Budget requests funding for the DFI to be appropriated from its off-setting collections to support administrative expenses, core existing financing tools (i.e.; loans and guarantees as currently provided by OPIC and DCA), feasibility studies, and other new tools that the Administration could propose to Congress. Political-risk insurance claims will continue to be paid from balances available for that purpose, transferred to the DFI from the OPIC Non-Credit Account. The Budget also requests the authority to receive transfers from USAID Bureaus and Missions, to maintain the Mission-led deal-development model currently used by DCA.

Administrative Expenses

The budget includes $94 million for the DFI's administrative expenses. This level will support 300 FTEs, and assumes the consolidation of current OPIC staff and current DCA staff from USAID, and some efficiencies that consolidating activities could produce.

This level also includes funding for the DFI to administer USAID's sovereign bond guarantees and legacy credit portfolio, currently managed by DCA at USAID.

Inspections and Evaluations

The budget includes $2 million for a robust inspection, evaluation, and oversight function to strengthen existing mechanisms and address Congressional interest regarding good stewardship and accountability.

Program-Related Funding

The budget requests $94 million for a better coordinated, reformed, and modernized DFI tool kit, including credit-subsidy budget authority, feasibility studies, project-related technical-assistance grants, and/or other tools as decided. The budget proposes funding to be allocated in the following way:

DFI Appropriated Funding

$38 million will be directly provided to the DFI for credit subsidies, project-specific feasibility studies, and/or other tools as authorized. This funding is proposed to have three years of availability, consistent with OPIC and DCA subsidies.

State/USAID Appropriated Funding

$56 million from the Economic Support and Development Fund (ESDF) to complement DFI deals, through grants that provide wrap-around services, technical assistance, transfer authorities, and potentially additional credit subsidies and other tools. This complementary funding will be allocated to the private-sector engagement activities in the USAID Bureau for Economic Growth, Education and Environment.

Transfer Authority

Transfer authority is requested between the DFI and funds appropriated to carry out Part I of the Foreign Assistance Act of 1961, such as ESDF and Global Health Programs. The DFI will not only leverage the funding specifically appropriated or allocated to it, but will also work to leverage transfers of funds allocated to USAID Missions and offices, similar to current USAID transfers to the DCA program.

Limitations

Credit Subsidy

Of the funds appropriated or transferred to the DFI, up to $80 million may be used for credit-subsidy costs for loans and loan guarantees.

Annual Exposure Limitation

The FY 2019 appropriation request limits the DFI to up to $8 billion in new loan commitments. This annual loan limitation will operate within, and complement, an overall maximum contingent-liability cap proposed in the authorizing legislation. This level is roughly twice the maximum loan commitments both OPIC and DCA have written in recent years.

Increased Coordination/Collaboration Efforts among DFI, USAID, the Department of State, and Other Stakeholder Departments and Agencies

The funding and authorities for the DFI will provide strong programmatic and governance linkages between the State Department, USAID and the DFI, cemented by shared leadership and staff as well as a dedicated funding allocation within the Economic Support and Development Fund to support the DFI.

Appendix A: Proposed Appropriations Language

DEVELOPMENT FINANCE INSTITUTION, PROGRAM ACCOUNT

For necessary expenses for authorized program activities of the Development Finance Institution, not to exceed $38,000,000, to remain available until September 30, 2021, and to be derived from offsetting collections, as authorized: Provided, That additional amounts from funds appropriated to carry out part I of the Foreign Assistance Act of 1961 by this Act or prior Acts or under title III of this Act or prior Acts may be transferred to, and merged with, funds appropriated in this paragraph: Provided further, That funds appropriated by this paragraph may be transferred to, and merged with, funds appropriated to carry out part I of the Foreign Assistance Act of 1961 by this Act or prior Acts or under title III of this Act or prior Acts: Provided further, That not to exceed $80,000,000 from amounts made available in this paragraph or transferred to this account under the first proviso are available for the cost of direct and guaranteed loans provided by the Development Finance Institution: Provided further, That such costs, including the cost of modifying such direct and guaranteed loans, shall be as defined in section 502 of the Congressional Budget Act of 1974: Provided further, That funds obligated in fiscal year 2019 remain available for disbursement through 2027; funds obligated in fiscal year 2020 remain available for disbursement through 2028; and funds obligated in fiscal year 2021 remain available for disbursement through 2029: Provided further, That these funds are available to subsidize gross obligations for the principal amount of direct loans, and total loan principal, the guaranteed part of which is not to exceed $8,000,000,000: Provided further, That amounts transferred under transfer authority in this paragraph from prior Acts that were previously designated by the Congress for Overseas Contingency Operations/Global War on Terrorism pursuant to section 251(b)(2)(A)(ii) of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, are designated by the Congress for Overseas Contingency Operations/Global War on Terrorism pursuant to section 251(b)(2)(A)(ii) of such Act and shall be available only if the President subsequently so designates all such amounts and transmits such designations to the Congress.

The Development Finance Institution is authorized to make, without regard to fiscal year limitations, as provided by section 9104 of title 31, United States Code such expenditures and commitments within the limits of funds available to it and in accordance with law as may be necessary: Provided, That, in addition, for administrative expenses to carry out authorized activities, not to exceed $96,000,000, to remain available until September 30, 2021, and to be derived from offsetting collections, as authorized: Provided further, That of the amounts made available in this paragraph, $2,000,000 shall be for inspections, evaluations, and oversight activities.

Appendix B: Proposed Breakdown of the FY 2019 Request

($ in thousands)	FY 2017 Actual	FY 2018 Estimate	FY 2018 Request	FY 2019 Request	Change from FY 2018 Request
Overseas Private Investment Corporation	-252,000	-357,611	-306,200	-	306,200
Administrative Expenses	70,000	69,525	60,800	-	-60,800
Credit Subsidy	20,000	19,864	-	-	-
Offsetting Collections	-342,000	-447,000	-367,000	-	367,000
USAID – Development Credit Authority	10,000	9,932	9,120	-	-9,120
Administrative Expenses	10,000	9,932	9,120	-	-9,120
Credit Subsidy Transfer Limitation	[50,000]	[50,000]	[60,000]	-	[-60,000]
U.S. Development Finance Institution	-	-	-	-326,000	-326,000
Administrative Expenses	-	-	-	96,000	96,000
Of which, for inspections, evaluations, and oversight	-	-	-	*[2,000]*	*[2,000]*
Credit Subsidy or Other Programming	-	-	-	38,000	38,000
Offsetting Collections	-	-	-	-460,000	-460,000
Other	-	-	-	[56,000]	[56,000]
Complementary Programming and/or Transfers from State/USAID, Economic Support and Development Fund	-	-	-	[56,000]	[56,000]

Appendix C: Budget Proposal Detail –DFI Administrative Expenses

Administrative Expenses
Dollars in millions

DCA	2017 Actual	CY Estimate	BY Request*
Direct obligations:			
Personnel compensation:			
Full-time permanent	4	4	-
Travel and transportation of persons	1	1	-
Advisory and assistance services	3	5	-
Total	**8**	**10**	-
OPIC			
Direct obligations:			
Personnel compensation:			
Full-time permanent	32	32	-
Civilian personnel benefits	11	11	-
Rental payments to others	8	8	-
Communications, utilities, and miscellaneous charges	1	1	-
Other services from non-Federal sources	16	16	-
Other services (working capital)	5	7	-
Supplies and materials	1	1	-
Equipment	1	1	-
Land and structures	1	1	-
Subtotal, obligations, Direct obligations	76	78	-
Reimbursable obligations:			
Grants, subsidies, and contributions	3	3	-
Total	**79**	**81**	**-**
DFI			
Direct obligations:			
Personnel compensation:			
Full-time permanent	-	-	45
Civilian personnel benefits	-	-	14
Rental payments to others	-	-	9
Communications, utilities, and miscellaneous charges	-	-	1
Other services from non-Federal sources	-	-	23
Supplies and materials	-	-	1
Equipment	-	-	2
Land and structures	-	-	1
Grants, subsidies, and contributions from State/USAID	-	-	56
DFI Program funds	-	-	38
Total	**-**	**-**	**190**

Carryover and/or other assets from OPIC and DCA are anticipated to be transferred to the DFI (pending authorization). As such, this presentation is slightly different than what is reflected in the 2019 President's Budget.

Appendix D: Selected OPIC Activity in FY 2017

Women's Investment Initiative

OPIC supports investment in global development to advance economic prosperity and global stability. **Women** are key drivers to achieving both. Women represent a multi-trillion dollar economy and provide a multiplier development effect because they re-invest in their children. Despite the opportunity that women represent, on virtually every global measure, women are more economically excluded than men. The financial barriers include: access to capital, access to high-value employment and access to products and service that improve economic opportunities for women.

In 2017, OPIC contributed to removing some of these barriers for women with the following transactions:

In **India** OPIC committed $75 million in financing to India's YES Bank for lending to local women-owned small and medium businesses, and $225 million to India's IndusInd Bank to support the expansion of the bank's micro, small and medium lending programs across India, with at least a quarter of the facility targeting female entrepreneurs and previously unbanked populations.

In **Central America**, where the female access to credit gap is the largest, OPIC provided $65 million to Banco BAC in Costa Rica and required that at least twenty percent of the OPIC funds go to women-owned enterprises.

OPIC provided $49 million in financing to XacBank which will support women-led small and medium enterprises, over half of which are expected to be located in rural parts of **Mongolia**.

Advancing U.S. Foreign Policy and National Security Priorities

In 2017, OPIC contributed significantly to advancing the United States' **national security goals**.

In **El Salvador**, OPIC invested in a series of solar projects, by REAL infrastructure Capital and AES Corporation, totaling $146 million. These projects will have a positive development impact in El Salvador's energy sector. The projects will help the country diversify itself away from imported fossil fuel and will reduce pressure on the country's balance of payments. These projects are expected to help stimulate the local economy, create employment throughout the construction and operation phases, and will bring advanced solar generation, operation technologies, and management practices to El Salvador.

In **Honduras**, OPIC committed $135 million to support the construction of a 35 MW geothermal power plant. The project will increase reliable electricity generation capacity in Honduras by approximately 2% at a cost that is 24.5% less than the average cost of residential electricity in Honduras. In addition, the project will be situated in an area of Honduras with little existing generation capacity and significant problems with blackouts. These investments improve the lives of people and strengthen U.S. ties to this important region.

In the **Middle East**, OPIC continues to contribute to economic modernization in support of efforts at regional peace. OPIC committed $500 million in political risk insurance to Noble Energy in both **Israel** and **Jordan** for cross border natural gas development that will both improve the standard of living in the region and increase ties among countries. Additionally, OPIC committed $5 million to the Middle East Investment Initiative to support business loans in the **West Bank**, contributing to stability, stimulating the local economy and generating incentive for peaceful development.

[redacted] *

In the **Indo-Pacific** region, OPIC has contributed to deepening America's partnership with **India** through two solar power projects—one by GS Wyvern Holding and one by Damian Miller—totaling $50 million. OPIC is also supporting a $75 million investment with Wells Fargo to support small and medium enterprise lending across the country.

Kenya and **Tanzania** represent African countries of key strategic importance. OPIC loans support job creation and economic development in these countries. In Tanzania, OPIC financed Alistair James's regional trucking expansion with $31 million, which contributes to African economic integration. In Kenya, OPIC supported Citibank's microfinance lending with $9M and the expansion of waste management services by Global partnerships/Elios Social Venture Fund with $5 million.

Information has temporarily been redacted, including to protect the safety of implementing partners.

Appendix E: An Overview of Major OPIC Initiatives in FY 2017 and 2018

Catalyze private capital to support U.S. development assistance goals

Since 1971, OPIC has fostered economic development abroad while helping to strengthen the U.S. economy at home by offering finance and political risk insurance tools to American businesses in the form of insurance, loans, guarantees and support for private equity investments. OPIC's investments create dynamic and complementary public-private partnerships that leverage private sector capital, which has become increasingly important to global development.

OPIC's mission is to encourage private enterprise to invest in countries they cannot access with private sector financing. OPIC is committed to working in tandem with private business to leverage private sources of financing and insurance.

Through highly developmental projects, countries reap benefits that go far beyond tangible dollars and cents or bricks and mortar. OPIC ensures that people in developing countries acquire new marketable skills, and that they gain an understanding of business principles and practices by working in collaboration with American businesspeople and OPIC professionals. OPIC allows American businesspeople to effectively serve as U.S. ambassadors putting a human face on capitalism and democracy, advancing our diplomatic and security priorities through targeted support of developmental projects.

Countries that once lacked basic infrastructure are now focused on expanding access to energy and healthcare, building low-income housing and, supporting small businesses and these countries are increasingly conscious of growing in a sustainable manner.

OPIC is undertaking a number of initiatives. In FY18, OPIC's aim is for 50% of its committed projects to fall within one of the USG's strategic initiatives. These initiatives include:

- 2X Women's Investment Initiative
- Advance U.S. Foreign Policy and National Security Priorities
- Help Address America's Major Geopolitical Challenges including, but not exclusively:
    - Geopolitical rivals' economic assertiveness across Eurasia, Africa
    - Economic stability in Northern Triangle (Guatemala, Honduras, El Salvador)
    - Instability in Middle East
    - Eastern European energy and economic independence

2X Women's Investment Initiative

OPIC supports projects in developing countries that are empowering women, helping them start and grow the businesses that bring jobs and opportunity to their families and communities. Investments in women-owned businesses can lead to stronger economic and social impacts, because women often pay to educate their children, provide healthcare for their family members and sponsor small-business startups that generate income and growth. However, women entrepreneurs find it more difficult to access capital for their businesses– even more so - globally. In fact, more than one billion women worldwide lack access to financial services.

Women own small businesses yet they still struggle to obtain loans. Sometimes they struggle to feed their families even though most of the world's smallholder farms are women.

OPIC's 2X Women's Initiative will increase support for women in the developing world, and unlock the multitrillion dollar investment opportunity they represent. While women in the developing world are significantly underrepresented in most key sectors from agriculture to financial services, their collective force is massive. Indeed, if the world's women were viewed as one single emerging market, that market would be bigger than China and India combined.

Investing in women pays dividends. Women often are particularly challenged to access loans to start or grow a business, yet research consistently shows that when women earn more, they invest more in their families and communities, for education, healthcare and housing.

OPIC's 2X Women's Initiative has made initial commitments to support women-owned and women-led businesses in Latin America, along with emerging market private equity funds that are investing in women entrepreneurs. It will also focus on supporting tech-enabled sectors such as agtech, edtech, fintech and medtech, which all offer the promise to leapfrog older technology.

Advancing U.S. Foreign Policy and National Security Priorities

OPIC provides economic and financial tool necessary to advance American interests around the world, including national security interests. Supporting new private investment helps developing economies grow and provide jobs that meet the basic needs of their citizens, averting economic instability. The President's National Security Strategy highlights the importance of private sector involvement in development and states, "modernized development finance tools can promote stability, prosperity, and political reform, and build new partnerships based on the principle of reciprocity." OPIC's support has consistently signaled that America is committed to sustaining peaceful development and economic growth in fragile and low-income states throughout the world.

Helping Address America's Major Geopolitical Challenges

OPIC can help solve some of the world's most critical challenges by mobilizing private capital to address sources of economic instability in developing countries. Through its financing and insurance products for private investment, OPIC support has helped to stabilize and expand the economies in Iraq, Afghanistan and Ukraine, while also supporting crucial infrastructure projects in nations such as Turkey, Jordan, Pakistan and Georgia. In the past, OPIC played an important role in aiding the peaceful transition of Eastern European and Newly Independent States following the end of the Soviet Union.

In FY18, OPIC will focus its support in states that are fragile, recovering from conflict and seeking a path forward to sustainable security and economic growth. U.S. economic diplomacy through development finance can enhance security and prosperity abroad. In places where American business face significant economic competition, OPIC can help those businesses and investors compete successfully in ways that further both their and our nation's interest. Moreover, in conflict and post-conflict areas, OPIC can help spur private investment that can support stability and consolidate positive changes, which can prevent countries from sliding back into further conflict. Across Africa, Latin America, and Asia, states are eager for investments and financing to develop their infrastructure and propel growth. The United States and its partners have opportunities to work with countries to help them realize their potential as prosperous and sovereign states that are accountable to their people.

In FY2018, OPIC will continue to directly and regularly engage DCA through standing quarterly pipeline review meetings. These meetings serve as an effective and structured venue through which DCA and OPIC identify common partners, avoid duplicating efforts, search for areas of collaboration, better understand how each institution operates, and review each other's active pipeline of transactions. Out of the pipeline meetings comes close ongoing collaboration around specific initiatives and transactions.

Appendix F: Selected DCA Activities in FY 2017

USAID's Development Credit Authority enables the Agency, through the use of U.S. Treasury-backed credit guarantees, to attract private commercial banks and other investors into markets with limited formal commercial finance. This approach supports ongoing USAID programs around the world and makes available a powerful transactional tool designed to supplant traditional grant funding with much larger pools of sustainable private sector financing.

USAID draws on DCA guarantees to achieve its development goals and simultaneously strengthen host countries' private sectors, helping to ultimately put USAID out of a job. Since 1999, USAID has made possible $5.3 billion in lending across 80 countries with 417 partner institutions through DCA guarantees. USAID missions throughout the world design and implement DCA guarantees within their existing programs. This operational framework allows guarantees to be coupled with USAID technical assistance needed to make guarantees as effective as possible and, in many cases, lead to more sustainable, market-changing impacts. Technical assistance designed to complement guarantees covers a wide range of activities tailored to the specific needs of individual transactions including regulatory reform, feasibility studies, market landscaping, development of lending strategies and products, and the training of loan officers.

DCA takes a modern, enterprise-driven approach to increase lending to underserved borrowers across the full spectrum of USAID development priorities. This includes supporting expanded access to energy and health care, investing in small businesses and women entrepreneurs, increasing access to finance in the agriculture and water and sanitation sectors, and promoting financial services technologies (fintech).

To this end, the majority of DCA's FY 2017 activities fall within three broad strategic priorities:

- Crowding-in private investment to electrify sub-Saharan Africa
- Facilitating broad-based economic growth and job creation across sectors
- Supporting financial innovation through digital finance

Crowding-in Private Investment to Electrify sub-Saharan Africa

DCA continues to develop guarantees to address working capital debt needs of small-scale energy enterprises and the larger project finance needs of distributed energy companies on a bilateral and/or regional basis.

The following transactions exemplify how DCA contributed to increased access to energy in sub-Saharan Africa.

In **Ghana**, DCA partnered with Early Power Limited to enable the company to secure $220 million in commercial debt financing for the construction, testing, commissioning, operation, and maintenance of the Bridge Power Project, a combined cycle power plant with associated fuel infrastructure. This project will result in approximately 200 megawatts (MW) of new electricity generation capacity in Ghana, a country with a full-load sustained output of approximately 3,000 MW.

DCA provided a $60 million loan guarantee to the Africa Export-Import Bank from Standard Chartered Bank for on-lending to power generation and/or grid connection projects **throughout Sub-Saharan Africa**.

In Uganda, DCA extended a $50 million loan guarantee to Umeme Limited from Standard Chartered Bank for the implementation of its already approved electric distribution grid-connection and grid-strengthening capital expenditures. This lead to an anticipated 200,000 new grid connections and improved electric grid operation.

Facilitating Economic Growth and Job Creation Across Sectors

Local small- and medium-sized enterprises (SMEs) are often unable to obtain suitable financing because of rural geographic constraints, high collateral demands, high interest rates, and a lack of loan products for SMEs. Such small businesses cite access to finance as a major obstacle to making new investments and growing their businesses. Banks often have doubts about the fundamental competitiveness of SMEs, and they are reluctant to lend to SMEs that do not have sufficient collateral. Strengthening local banks' ability to finance SMEs in productive sectors of the economy fosters economic growth in developing countries. In FY 2017 DCA continued to support economic growth and job creation through supporting access to finance for SMEs, particularly among women entrepreneurs.

In **Cambodia**, a $15 million loan portfolio guarantee with two local microfinance institutions and a leasing company will support secured lending to enterprises operating in agricultural value chains. It includes a requirement that 50% of the portfolio by year five must consist of loans/leases to women and women-owned businesses.

A $18 million loan portfolio guarantee will support MCE SoCap, a social impact lender, to expand new lending to small and growing businesses in the agriculture and water and sanitation sectors in up to 56 countries in which USAID operates **in Africa, Asia, and Latin America and the Caribbean**.

A $13 million loan portfolio guarantee will enable lending to innovative small- and medium-sized enterprises in Southeast Asia across **six countries (Burma, Cambodia, Indonesia, Laos, the Philippines, and Vietnam)** to facilitate economic growth and job creation through high growth and scale in food and agribusiness, clean energy, water, financial inclusion, and other sectors critical for development.

An $8 million loan guarantee will enable a newly established cashew processing company in **Cote d'Ivoire** to expand its working capital, finance the purchase of raw cashew nuts, and fund the construction of three collection warehouses. The firm exports for sale to buyers in the United States, Europe, the Middle East, and Vietnam.

A $7 million guarantee with DTRT Apparel in **Ghana** will enhance the firm's ability to train new workers and access financing from local banks. With USAID's support, DTRT Apparel, which was founded in 2014 by two American entrepreneurs, expects to hire an additional 1,000 unskilled workers in Ghana (80% of which will be women) and generate an additional $20 million in annual sales to the United States under the African Growth and Opportunity Act (AGOA).

Supporting Financial Innovation Through Digital Finance

In **India**, a $6 million guarantee with Zen Lefin, which operates Capital Float, an online platform that provides working capital to SMEs, will support loans to businesses with a limited or nonexistent digital transactions footprint to ultimately help them build such a footprint. That footprint will serve as a source of data against which these entities can later receive a loan without a guarantee while simultaneously incorporating these merchants into the digital economy.

A guarantee with Opportunity Bank **Mozambique** will facilitate access to $2 million in credit for underserved agriculture MSMEs, expand the bank's client base into new regions of Mozambique, and make it easier for these enterprises to borrow money. As a part of its long-term strategy, this financial institution will rollout inclusive fintech services that support its lending as a way to further expand access to finance for smallholder farmers in rural areas.

Appendix G: An Overview of Major DCA Initiatives in FY 2017 and FY 2018

Catalyzing private capital to support U.S. development assistance goals
Since 1999, USAID, through its Development Credit Authority (DCA) program, has supported private sector investment in the world's poorest markets. DCA credit guarantees have enabled USAID to encourage private commercial banks and other investors to enter markets untouched by formal commercial finance, as a way to supplant traditional grant funding with much larger pools of sustainable private sector financing. Through innovative deal structuring, USAID has been able to do this at a fraction of the cost of traditional grant financing.

DCA takes a modern, enterprise-driven approach to increase lending to underserved borrowers across the full spectrum of USAID development priorities. DCA was created on the simple notion that credit guarantees, by unlocking private capital, are a more sustainable way to accelerate development. DCA guarantees incentivize financial institutions to lend their own capital to new sectors and borrowers. Loans target sectors and borrowers that otherwise lack access and, in many cases, lending continues long after guarantee coverage expires. Borrowers demonstrate their creditworthiness to lending institutions, and those institutions come to better understand new customers and sectors.

DCA loan guarantees have made it possible for private lenders and other institutional lenders, including U.S.-based investors, to enter frontier markets previously unavailable to them, while enabling private sector enterprises to access commercial credit markets for the first time in order to grow their businesses. In doing so, USAID has directly supported the development of markets for U.S. goods, the expansion of supply chains for U.S. companies, and the penetration of U.S. investors into new and growing markets.

DCA's unique position within USAID has allowed it to ensure that every transaction it structures is fully aligned with the U.S. government's specific foreign policy and development priorities in each of the 80 countries in which it has developed guarantee programs. DCA guarantees have mobilized capital from a large variety of lending institutions, including local and international banks, pension funds, impact investors, and microfinance institutions; it has supported investment across a variety of sectors critical to development, including agriculture, water, renewable energy, municipal finance, enterprise development, health, and infrastructure.

In FY2018, DCA will continue to directly and regularly engage OPIC through standing quarterly pipeline review meetings. These meetings serve as an effective and structured venue through which DCA and OPIC identify common partners, avoid duplicating efforts, search for areas of collaboration, better understand how each institution operates, and review each other's active pipeline of transactions. Out of the pipeline meetings comes close ongoing collaboration around specific initiatives and transactions.

In 2018, DCA will continue to support the administration's top foreign policy priorities, while scaling private investment penetration in developing markets.

Crowding in Private Investment to Electrify sub-Saharan Africa
Through innovative co-guarantee relationships with emerging local guarantors, DCA seeks to significantly increase its reach into developing markets, while dramatically reducing its risk and cost to the U.S. taxpayer. This is particularly important in the power sector. In **Nigeria**, for example, USAID is exploring a co-guarantee relationship with InfraCredit to attract institutional capital to deepen the debt capital markets while significantly increasing power generation and expanding electricity connections within the country.

USAID will continue to fully operationalize a groundbreaking transaction **in Ghana**, in which DCA partnered with Early Power Limited to enable the company to secure $220 million in commercial debt financing for the construction, testing, commissioning, operation, and maintenance of the Bridge Power Project, a combined cycle power plant with associated fuel infrastructure. Once fully operational, this project will result in approximately 200 megawatts (MW) of new electricity generation capacity in Ghana, a country with installed capacity of approximately 3,000 MW.

Facilitating Economic Growth and Job Creation Across Sectors
Broad-based economic growth requires the full participation of the poor and disenfranchised in the formal financial markets. USAID intends to leverage DCA guarantees to reach these populations, particularly women business owners, businesses that support and employ women, and women borrowers through several different approaches.

In **Tanzania**, FINCA, a U.S.-based microfinance institution, plans to issue a DCA-backed bond through the guarantee in the local capital markets. This marks the first private issuance in the Tanzanian capital markets to support bottom-of-the-pyramid borrowers with an emphasis on women borrowers. In **Kenya**, USAID is supporting a bond transaction that will channel capital market financing for water infrastructure, making access to clean and affordable water more widespread and affordable.

In **El Salvador**, USAID intends to develop guarantees in **Guatemala, Honduras, and Nicaragua** to increase access to finance for small- and medium-sized businesses investing in energy efficiency and clean energy to increase job opportunities, while also helping small businesses lower their production costs through reduced energy consumption.

In **Colombia,** USAID plans on developing a loan guarantee program with Forest First, which is a subsidiary of a U.S. corporation, which will develop forest plantations on fallow lands in the eastern portion of Colombia that borders Venezuela. A loan guarantee will enable Forest First to secure local debt capital to increase long-term investment in the forest plantations. The forestry project will also enable land holders to improve the productivity of their farms and generate rural economic opportunities.

In **Serbia**, USAID intends to partner with Government of Serbia to develop a guarantee program that will vastly expand access to finance for small businesses and agricultural producers. The government of Serbia seeks to pay for the guarantee program, which USAID will implement with multiple Serbian commercial banks. The DCA program will inject significant debt capital into the Serbian productive economy, and transform the agricultural sector. This program builds off of similar innovative partnership model DCA has initiated via programs in Kosovo and Macedonia.

Programs that focus on small- and medium-sized enterprises (SME) support in the **Kyrgyz Republic** often leave out smaller firms that are women- or youth-owned or are employing women and youth. In Kyrgyz Republic, USAID is exploring the development of a guarantee focused on supporting enterprises, value chains, and sectors that employ, retain, and/or are owned and managed by women and youth. Similarly, USAID in **Sri Lanka** is developing a transaction to enable lending to start-up enterprises that have the potential to scale, creating jobs and bolster markets in that economy.

To facilitate local currency financing for microfinance institutions (MFIs), several of which have U.S. shareholders, USAID is pursuing a guarantee with commercial banks in **Burma**. The guarantee will enable MFIs to obtain loans without expensive hedging costs, making their lending more efficient and allowing for improved and expanded services.

USAID is exploring support of a fund focused on **global health interventions** to relieve the disease burden in developing countries. The fund's investments will include support for U.S.-developed technologies being deployed in developing markets and the supply chains that enable their distribution.

Supporting Financial Innovation Through Digital Finance

Through the use of the DCA guarantee, USAID is pushing to the frontier of digital finance in markets throughout the world to accelerate private capital penetration in developing markets. Emergent fintech helps investors and lenders in frontier markets more easily reach the poorest borrowers by dramatically reducing costs while better, and more affordably, assessing risk.

In **Southern Africa**, USAID is supporting the growth of digital lending and establishment of innovative agent banking networks to extend the reach of traditional brick and mortar bank operations into rural communities. DCA plans to partner with a South Africa-based digital lender through a loan guarantee in support of their capital raise efforts. This digital lender is focused on underserved SMEs across South Africa. In **Malawi**, USAID plans to partner with an emerging local bank in support of their agricultural lending expansion plans through innovative fintech, including introduction of mobile agency networks and alternative bank locations to brick-and-mortar branches.

In parts of **Asia**, such as **India and Kyrgyz Republic**, USAID is exploring opportunities to support lenders adopting fintech to improve and expand their lending services, reaching new borrowers, including those in rural areas.