Wilson Center | Wahba Institute for Strategic Competition

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Strengthening the Impact of the Development Finance Corporation

Contents

The Wilson Center's Wahba Institute for Strategic Competition launched a study group comprising legal professionals with extensive development finance experience. The group examined how to close the multi-trillion-dollar infrastructure funding gap in emerging markets and developing economies and offers recommendations that would help the US International Development Finance Corporation (DFC) have a greater impact on efforts to close the gap.

The US government (USG) has many tools at its disposal,[1] including official development assistance (ODA) (*e.g.*, services, technical assistance, and grants), export credit (*e.g.,* loans, loan guaranties, and political risk insurance (PRI)), and development finance (*e.g.,* equity, loans, loan guaranties, and PRI). ODA is vital to creating good enabling environments and facilitating early project development. The USG's model for development also relies on development finance and export finance, which mobilize the private sector to invest alongside the USG, effectively leveraging the development and export finance with private capital. The two agencies that use these tools are the Export-Import Bank of the United States (EXIM Bank) and the DFC.

The Legal Working Group focused on the DFC, the USG's development finance institution (DFI). It was created under the Better Utilization of Investments Leading to Development Act of 2018 (BUILD Act), to replace its first DFI, the Overseas Private Investment Corporation (OPIC), which began operations in 1971 under the Foreign Assistance Act.

The BUILD Act gave DFC several important tools that the OPIC did not have, primarily authority for equity investment and technical assistance, additional capacity (doubling OPIC's $29B to $60B), and a longer authorization period (increasing it from one year to seven years).

These additional tools are important, but more steps are needed to make the DFC even more competitive and effective. The study group offers the following recommendations that would empower the DFC to make a greater impact.

I. Ensure Relevant Expertise and Continued, Effective Operations and Relationships

As a unique and essential provider of international financial services, the DFC must be highly responsive to the private sector and must continually originate a steady pipeline of projects to effectively fulfill its mission of mobilizing private sector capital and skills to achieve economic development goals and foreign policy objectives. Unlike other DFIs, the DFC must be responsive to USG policy considerations. For optimal working relationships with borrowers and investors, the DFC must continue to invest in its Board and skilled staff. It should place particular focus on retaining and cultivating those with specialized backgrounds, expertise, and skills necessary to effectively assess risks of complex and consequential transactions. It also needs to avoid gaps in leadership–both career and political.

1 "United States Government Infrastructure Export Tools." International Trade Administration, Department of Commerce, n.d. https://www.state.gov/wp-content/uploads/2020/02/US-Government-Infrastructure-Tools.pdf.

The number of people required to review and approve (formally or informally) the project and the number of those who are not finance or development finance experts substantially increases the inefficiency of the DFC's deal review and approval process. It also significantly increases the cost and time required to complete the process.

As part of the project review process, the DFC is required to consult with individuals representing many different federal agencies and Congressional committees. Each of those individuals has a policy interest in DFC deals, but few have the experience to understand the complex and highly sophisticated deals that development finance institutions like the DFC make. At the DFC and other DFIs, each individual whose sign-off is required for a deal usually has at least a decade of experience in finance and/or development finance. The knowledge gained by these years of experience allows them to understand their strategic goals and details of a project much faster and at a more sophisticated level than those without such experience.

Requiring the DFC to receive sign off from multiple individuals at other agencies who lack that experience is extremely time consuming and costly and reduces the DFC's overall effectiveness and competitiveness. Through this lack of understanding, these other agency personnel sometimes (with the best of intentions) push the DFC to adopt policy or commercial positions that are not in the best interests of the project, the DFC, or the USG nor acceptable to the private sector. This makes sponsors significantly less inclined to include the DFC in their infrastructure and other projects globally.

With the transition from the OPIC to the DFC, the pandemic, and the significant growth of the DFC, the change in the personnel of the DFC and, in particular, the loss of experienced professional career staff has been notable—additional attrition appears likely. According to the Federal Employee Viewpoint Survey, conducted by the US Office of Personnel Management, in each of the past three years, 25%–35% of DFC career staff indicated they intend to leave the agency within a year.

High levels of attrition are costly to any organization. It causes a loss in institutional knowledge, a drop in productivity, and an increase in hiring and training costs. According to a recent Gallup study, replacing an employee can cost organizations 1.5 – 2 times the employee's annual salary.[2] Such attrition also frequently causes a loss of customers (borrowers or project developers for the DFC), because of lost relationships, institutional knowledge, and an ability to effectively market and sell the organization and its offerings.

The private sector has noticed attrition at the DFC, particularly with respect to the finance and legal professionals. Attrition creates a great deal of consternation, causing some private sector investors to state that they intend to avoid the DFC in favor of other DFIs. Borrowers and project sponsors strongly prefer dealing with the same DFC team from deal to deal. Doing so allows trusted relationships to form that they rely on to be assured the DFC will continue to act in a reasonable, consistent, and timely manner. Additionally, the private sector's perception is the relative lack of experience within the DFC is making the finance and legal professionals substantially more conservative, as they are unsure what is permitted and saying "no" is always the safer route. Inexperience also means that DFC teams are less able to explain the sometimes-complex and historical reasons behind DFC policies.

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2 McFeely, Shane, and Ben Wigert. "This Fixable Problem Costs U.S. Businesses $1 Trillion." Gallup.com, March 13, 2019. https://www.gallup.com/workplace/247391/fixable-problem-costs-businesses-trillion.aspx.

It is vital that the DFC Board of Directors (the Board) determine how to curtail this trend and how to remediate the consequences of the attrition that already has occurred.

We offer two recommendations to ensure relevant experience and continued effective operations and relationships. One addresses modifying the Board structure to reflect the transactional nature of the DFC and the complexity of those transactions. The other addresses compensation. Part (but not all) of the attrition noted is related to compensation. Additional compensation flexibility will make it easier for DFC to both retain and hire the highly qualified individuals it needs for its deal teams.

Recommendation 1: Modify Board structure.

Congress should pass legislation modifying the DFC's Board membership to closely resemble the board of The Export-Import Bank of the US (EXIM Bank). The Board should have five permanent members (the CEO and the members currently set forth in Section 1413(b)(2)(A)(iii) of the BUILD Act) and should require all voting members to have significant expertise in debt and/or equity financing in less-developed countries. As with the EXIM Bank Board, political leaders from the two most relevant agencies should serve in *ex officio* non-voting roles to ensure a degree of connectivity with policymakers.

Implementation: BUILD Act Amendment.

The DFC Board makes decisions about the spending of significant taxpayer dollars on highly complex financial and developmental projects around the world. The Board now works on a part-time basis.[3] A development finance institution that intends to invest more than $7 billion each year and develop a portfolio of at least $60 billion of investments deserves a full-time Board whose members' professional responsibilities are solely with the DFC and whose professional credentials and skills are in debt and/or equity financing in less-developed countries.

Recommendation 2: Improve recruitment and retention of skilled professionals.

Congress should pass legislation (similar to Section 4802 of the Pay Parity Act of 2002) with respect to the SEC to provide the DFC with additional flexibility in setting pay scales for its employees, so that it may compensate its employees at a level at least equal to other highly qualified USG career staff.

Implementation: Congressional action.

The private sector highly compensates those with the financial and legal skills necessary to effectively process and complete transactions that mobilize private capital with an appropriate balance of risk and reward. To recruit and retain financial professionals and lawyers with the necessary skills, the DFC should have authorizations similar to those the SEC received in Section 4802 of the Pay Parity Act of 2002 so that it may attract and retain employees with the necessary background and expertise to carry out its mission.

The skill sets and experience required of DFC finance and legal professionals are the same as those required of such professionals at top-tier private sector companies. The compensation packages received at such private sector organizations dwarf compensation for DFC professionals.

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3 The typical time requirements for Board members are four days annually for Board meetings, several additional days each year for Board committee meetings, and some additional time reviewing materials for the meetings and votes that occur without meetings.

While most DFC professionals make the decision to work at the DFC and forego some compensation because they care deeply about the development impact of their work, their morale and desire to remain at DFC suffers because professionals at other USG agencies can earn more money than they do. Historically, pay satisfaction has been the lowest scoring category in the Federal Employee Viewpoint Survey for DFC/OPIC. It is routinely placed in the lowest quartile of small agencies and is sometimes placed last.[4]

To incentivize DFC finance and legal professionals to continue to forgo the significant salaries (usually without any real improvement of work-life balance that many assume government workers to have) they could make in the private sector, we recommend Congress allow the DFC to pay such professionals at the same level allowed at other specialized USG agencies.[5]

II. Prioritize Mobilizing Private Sector Capital

Mobilizing more private sector capital in high-risk emerging market countries requires that the DFC be authorized to use a full set of financing tools to help to reduce risk to a level that is still significant, but acceptable to private lenders and equity investors. The risk-averse nature of DFC's current authorization limits the private capital it can mobilize.

As the DFC's mission is to encourage and **"mobilize private sector capital and skills in less developed countries,"** it must be able to interact with the private sector in ways that encourage the private sector to seek them out as reliable, predictable, efficient, and reasonable project partners.

The private sector's perception appears to be that the DFC is less investment focused than the OPIC was. The perception is that the DFC is more focused on policy and development objectives, causing its deal teams to spend less time and attention on executing deals. That in turn causes delays and imposes significant additional costs on projects and project developers, making the DFC less competitive among DFIs, MDBs, and other sovereign-sponsored institutions.

Unless the DFC first focuses on how to mobilize the private sector to engage in less developed countries, economic development under the development finance model does not occur. There is no question that the DFC must ensure that each of its deals is appropriately developmental. To continue to increase its global influence, the DFC should be permitted and encouraged to focus on making itself function as much like a private sector investor as possible, albeit one with a developmental (rather than profit) focus.

4 Best Places to Work in the Federal Government. "U.S. International Development Finance Corporation." Partnership for Public Service and Boston Consulting Group. Accessed November 15, 2023. https://bestplacestowork.org/rankings/detail/.

5 An Associate General Counsel (Investment Management) at the SEC, which requires only four years of experience, is a career SO-1 position, which could result in an annual salary (including location allowance) of $289,273.

A Deputy Chief Examiner and Director at the Farm Credit Administration is a career VH-42 position (out of a maximum of VH-45), which could result in an annual salary (including location allowance) of over $284,000.

The current first-year associate salary at major law firms is at least $200,000, plus a bonus. Effective in-house DFC transactional counsel should have at least seven years of law firm experience. At major law firms, their salaries are approximately $400,000, plus significant bonuses.

The maximum career staff annual salary at DFC is an SL position (which, generally, are limited to only the highest-ranking career staff, such as department heads), which results in an annual salary of $212,000.

The maximum career staff annual salary at DFC on the GS scale is $183,000.

Development finance institutions are designed to be "catalytic agents in promoting private sector involvement" in less-developed countries.[6] Fundamentally, the way DFIs do that is by taking on commercial and political risks that are unique to such countries and that the private sector is unwilling or unable to take. The DFC does this with respect to loans and loan guaranties primarily by offering tenors and pricing that allow projects to generate sufficient equity returns for equity investors to invest at least 20% of the projects' costs.

The DFC has authority to take on additional political and commercial risk, but is often hesitant to do so because of negative feedback in the interagency review process and its concern that it will be criticized for not taking on only the safest investments. Being encouraged to assume such additional risk would make the DFC's process more time and cost efficient, would further catalyze private sector investment once certain risks are mitigated, and would make it more competitive in the global infrastructure market.

Recommendation 3: Comply with Congressional intent on guarantees.

Congress should clarify that, notwithstanding OMB Circular A-129, loan guaranties can be issued for up to 100% of the amount of loans, provided that other parties to the project bear a risk of loss equal to at least 20% of the amount of the loan guaranty.

Implementation: Congressional action or Office of Legal Counsel Guidance or Treasury and OMB guidance, in each case permitting DFC to issue 100% loan guaranties.

The BUILD Act requires that "**parties to the project**…bear the risk of loss equal to at least 20 percent of the guaranteed support." It does not limit the amount of the loan that the DFC can guaranty.

The Office of Management and Budget (OMB) has objected to the DFC issuing 100% loan guaranties without a Treasury waiver on the basis that they are prohibited by OMB Circular A-129. That OMB Circular states that "**[p]rivate lenders** who extend credit that is guaranteed by the Government should bear at least 20 percent of the loss from a default." It also states that "The policies and standards of this Circular do not apply when they are… inconsistent with a program's statutory requirements."[7]

The BUILD Act explicitly requires that such 20 percent must be borne by the "parties to the project," not necessarily the "private lenders."

The OMB Circular requirement that the 20 percent should be borne by the "private lenders" is inconsistent with the BUILD Act requirements that the 20 percent should be borne by "parties to the project." Therefore, as provided in the OMB Circular, the BUILD Act provision should prevail, allowing the DFC to issue 100% loan guaranties.

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6 Akhtar, Shayerah Ilias, and Marian L. Lawson. "BUILD Act: Frequently Asked Questions About the New U.S. International Development Finance Corporation." Congressional Research Service, January 15, 2019, page 2. https://crsreports.congress.gov/product/pdf/R/R45461.

7 "Policies for Federal Credit Programs and Non-Tax Receivables." Circular No. a-129. Office of Management and Budget, Executive Office of the President, January 2013. https://www.whitehouse.gov/wp-content/uploads/legacy_drupal_files/omb/circulars/A129/a-129.pdf.)

Bringing private sector investors into a DFC project, even with a 100% DFC guaranty, would help them to become more familiar with the types of projects the DFC finances. Doing so would allow those investors to experience how relatively rarely they need to call on the DFC guaranty. That may make them reconsider the risk they assign to such investments and determine that they can loan funds directly.

This is exactly what DFIs are supposed to do–incentivize or catalyze private sector investors to invest in less-developed countries. The DFC should not be prevented from taking this catalytic action because of an OMB Circular from January 2013 that is inconsistent with the DFC's founding statute.

Senate Bill 3005, the Enhancing American Competitiveness Act of 2023, introduced by Senator Chris Coons and Senator John Cornyn, and referred to the Senate Committee on Foreign Relations, (S. 3005) includes language that would accomplish this recommendation, if passed.

Recommendation 4: Encourage subordinated debt.

The DFC is limited in how much private capital it activates if it only provides senior debt that is first in line for repayment in the event of a default. It also needs to offer more subordinated debt, which allows senior creditors to be paid first. Provision of such debt would require high pricing, but should not require policy justification.

Implementation: Congressional action and DFC Board resolution.

Subordinated debt is a useful tool for DFIs and project developers. There are various instances in which a tranche of DFI subordinated debt makes a project more appealing to private sector developers, equity investors, and lenders. While subordinated debt is, by definition, more risky than senior debt, that economic risk can be offset by proper pricing.

As a development finance institution, it is vital that the DFC does everything reasonable to ensure the developmental objectives of a project are achieved. A Category A project that is done well can be substantially developmental. A Category A project not done well may not meet its developmental objectives and can do significant harm. With respect to such Category A projects, the DFC must have legal rights that permit it to take action if a project is not being completed or operated in a manner that will achieve the intended development. This authority generally is achieved through rights granted to senior (but not subordinated) lenders. Therefore, the DFC should take a subordinated debt position in Category A projects only if it also is a senior lender.

The BUILD Act permits DFC to issue subordinated debt with "a substantive policy rationale."[8] It should be amended so that the Board is permitted to determine circumstances in which the DFC may issue subordinated debt. The Board, then, should adopt a resolution that authorizes and encourages the issuance of subordinated

8 BUILD Act, Section 1422(b)(12).

debt in Category A or Category B[9] projects when the DFC also holds senior debt in the same deal and in any deal that is a Category C project.[10]

Recommendation 5: Allow private sector investors to participate in DFC loans.

Allocate credit subsidy to encourage the sell-down of performing loans, which would enhance its ability to mobilize private capital.

Implementation: DFC Board resolution and Congressional action

The risk of project completion (the risk of not completing construction or that the infrastructure will not function properly) is a significant one that discourages private sector investors from investing in infrastructure projects in less-developed countries. Another significant risk is that the offtaker (source of revenue) for the project will not pay in full and on time.

Once a project reaches project completion and shows that its offtaker's payments are reliable, private sector investors are much more likely to take on the risk of the project. DFC can incentivize them to do so by providing loans or loan guaranties until the project reaches those milestones. It could then sell the performing loans of performing projects to a private sector lender. This approach would catalyze more private sector investment in infrastructure in less-developed countries and would free up DFC capacity to support other projects.

While the DFC has the authority to do this, it is disincentivized to do so because of the Federal Credit Reform Act of 1990 (FCRA). FCRA requires any loan to be rescored when it is sold. Because of the relatively low cost of capital for the DFC, FCRA almost always will see such a sale as a loss. Therefore, the sale would require an allocation of the DFC's appropriated credit subsidy.

Borrowers and sponsors may want the DFC to remain in a deal so that the perceived umbrella protection of having the USG involved continues. If this is the case in a particular deal that the DFC is interested in selling down, it should consider selling down only a portion of the investment. This would allow the DFC to continue to remain in the deal while also catalyzing another private sector party to invest.

Accordingly, we recommend that the Board requests additional credit subsidy for this purpose in the DFC's annual budget request and that Congress grant the request.

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9 A Category B project is one that involves "business activities with potential limited adverse environmental or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures."

"Environmental and Social Categorization." International Finance Corporation, World Bank Group. Accessed November 15, 2023. https://www.ifc.org/en/what-we-do/sector-expertise/sustainability/policies-and-standards/environmental-and-social-categorization.

10 A Category C project is one that involves "business activities involving investments in financial institutions or through delivery mechanisms involving financial intermediation."

"Environmental and Social Categorization." International Finance Corporation, World Bank Group. Accessed November 15, 2023. https://www.ifc.org/en/what-we-do/sector-expertise/sustainability/policies-and-standards/environmental-and-social-categorization.

Recommentation 6: Treat equity more favorably.

Create a revolving fund at the DFC for equity investments, with investment returns flowing directly back to that DFC fund. Additionally, use a "net present value" basis for scoring such investments, with a discount-rate term equal to the term of the fund or the reasonable estimate of the date that such investment will be sold.

Implementation: OMB decision; Congressional action

One of the most celebrated items in the BUILD Act was granting equity investing authority to the DFC.[11] However, in practice that authority has been less useful than expected because OMB has required the DFC to budget for any equity investment on a dollar-for-dollar basis (as though it were a grant).

Under current legislation and USG accounting mechanisms, there is no clear method to account for equity investments. The purpose of FCRA is to address federal credit programs (specifically direct loans and loan guaranties) by determining their net present value, taking into account the estimated cash outflows and inflows and applying an appropriate discount rate. This approach relies on having a date on which the credit is repaid and a predictable repayment schedule. It should be noted that equity has neither.

In the past, the OMB has scored certain preferred equity (such as equity invested in financial institutions in 2008–09) under FCRA, but that preferred equity had debt-like terms pursuant to which the equity would be bought back, and that specific returns would be provided. The OMB has struggled with how to score common equity, even when the DFC invests the equivalent of common equity in investment funds, which have a date on which the fund will be dissolved, and all remaining capital returned to the investors and reliable estimates of expected returns. The OMB generally has reverted to scoring common equity as a grant, which assumes that no equity investment will ever return its original capital, much less make a profit.

We recommend a more rational method of scoring common equity be developed, potentially using the net present value (as indicated in S. 3005), except that the discount rate should be specified. For equity investments to investment funds, the discount rate should be the average interest rate on marketable Treasury securities of a maturity similar to the maximum life of the investment fund. For direct equity investments, the discount rate should be the average interest rate on marketable Treasury securities of a maturity similar to the equity investment, based on an estimated date of the sale or other disposal of the equity.

We also recommend that the DFC be permitted to fund (with specified appropriated funds) a cash revolving account to fund credit subsidy costs for equity investments and to receive returns on such equity investments, which can be used to further fund credit subsidy costs for equity investments. We recommend that Congress grant the DFC request in the FY2024 budget for $2 billion to fund that revolving account.

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11 BUILD Act, Section 1421(c).

III. Reduce the Time from Project Submission to Project Approval

Project financings and equity investments in less-developed countries are, by definition, complex and bespoke transactions that require substantial due diligence, local governmental actions, and complicated documentation. All those take substantial time, even in the private sector. However, certain DFC requirements not required of other DFIs, MDBs, or the private sector make the time from project submission to project approval for the DFC even longer. Reducing the necessity of those items, or making the completion of those items more efficient, will significantly improve the DFC's timeliness and its reputation for responsiveness in the market.

Recommendation 7: Align Board approval threshold to current scale.

Approval for many projects would be streamlined by adjusting the threshold required for Board approval for loans, loan guaranties, and political risk insurance to $150 million to reflect the greater liability limits of the DFC. All projects not going to the Board would still need approval from credit professionals and the senior leadership team (comprised of political appointees).

Implementation: DFC Board resolution.

Requiring Board approval can delay a deal by a month and add a significant number of person-hours to the approval process. While Board approval is vital for the DFC's largest deals (which could impact the DFC's sustainability), internal approval processes are sufficiently robust for the smaller ones.

In the final years of the OPIC, when the statutory maximum contingent liability was $29 billion and the internal maximum size of loans and loan guaranties was $250 million (or $400 million under special circumstances), Board approval was required for any loan, loan guaranty, or PRI policy over $50 million. The threshold has not changed, even though the maximum contingent liability has increased to $60 billion (a 100% increase), and the internal maximum size of an investment has increased to $1 billion (a 150% increase).

All DFC loans and loan guaranties must be reviewed and approved by senior members of the DFC's credit team, which includes a group of seasoned credit/risk professionals. All DFC loans and loan guaranties of $20 million or more must be approved by the DFC Investment Committee, primarily political appointees who are particularly attuned to policy concerns. Those reviews and approvals are sufficient for loans and loan guaranties of $150 million or less.

Recommendation 8: Accept IFC environmental reviews.

Section 1451(c) of the BUILD Act should be interpreted to allow the DFC to rely on IFC's environmental reports and contractual language for projects that are Category A[12] projects under IFC's requirements.

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12 A Category A project is a project "with potential significant adverse environmental or social risks and/or impacts that are diverse, irreversible, or unprecedented."

"Environmental and Social Categorization." International Finance Corporation, World Bank Group. Accessed November 15, 2023. https://www.ifc.org/en/what-we-do/sector-expertise/sustainability/policies-and-standards/environmental-and-social-categorization.

Section 1451(e) of the BUILD Act requires that the Board shall not approve any project that "is likely to have significant adverse environmental or social impacts that are sensitive, diverse, or unprecedented, unless…[DFC], applying best practices with respect to environmental and social safeguards, includes in any contract…provisions to ensure the mitigation of any such adverse environmental or social impacts."

Implementation: Congressional action or DFC Board resolution.

If requested by the borrower, the Board should require the DFC to rely on the IFC for all projects that involve the DFC and IFC.

Implementation: DFC Board resolution.

Although the DFC uses the International Finance Corporation's (IFC) Performance Standards for its ESG reviews, it independently reviews the environmental assessments, publishes those assessments for public comment, and develops required mitigation measures and contractual language, even if the IFC also is involved in the transaction. In some instances, the DFC's analysis and resulting requirements differs from those of the IFC.

The DFC is currently reviewing and updating its Environmental and Social Policy and Procedures. Accordingly, now is an ideal time to make the changes recommended here.

It is important to note that, even under these recommendations, the DFC will be required to disclose the environmental reports and to receive and respond to public comment under Section 1451(e) of the BUILD Act. DFC staff also will need to read and fully understand the environmental reports to respond to the public comments and questions posed by other stakeholders, such as Congress and the DFC's Board.

Recommendation 9: Simplify collateral for smaller loans.

Encourage securing loans and loan guaranties of less than $20 million only with a pledge of shares. Obtaining additional collateral on such loans is costly, even though action against such collateral is rarely exercised because the costs of obtaining and enforcing such security generally exceed any reasonable recovery.

Implementation: DFC Board resolution.

Taking a complete security package in connection with a loan or loan guaranty of projects in less developed countries is a time consuming and costly endeavor. While important for large infrastructure projects, that time and cost usually is not justified for a small loan or loan guaranty.

In general, the DFC works hard to not enforce the security packages that it receives, even if there is a default. Enforcing a security package typically would mean the project has failed and all intended development impacts are lost. The DFC prefers to work with a borrower to address issues in the project so the project can succeed, the developmental impacts can be achieved, and the loan can be repaid.

In many less-developed countries, the level of confidence that security packages can be enforced is not as high as it would be in an OECD country. The process of enforcement (*e.g.*, taking ownership of the secured property) in these jurisdictions is often time consuming and costly. Finally, for a $20 million loan or loan guarantee, the project would have been originally valued at only $24M-$40M (assuming a debt:equity ratio of between 80:20 and 50:50). Finding a buyer of those seized assets (which is the only way to recover any of the amount loaned) for a price that results in any reasonable recovery (particularly after accounting for enforcement costs) of a loan that is less than $20 million is unlikely.

Therefore, as the cost of obtaining and enforcing security for a small project is highly unlikely to exceed any recovery (even in the relatively unusual event that the DFC attempts to enforce its security), DFC rarely takes such enforcement actions.

Obtaining and enforcing a share pledge is, relatively speaking, less time consuming and costly. It also ensures that sponsors cannot benefit from their failed project.

In 2022, this recommendation would have saved considerable time and cost for 75 loans and loan guaranties, without any measurable increase in risk or reduction in recovery.

Wilson Center | Wahba Institute for Strategic Competition

Woodrow Wilson International Center for Scholars
One Woodrow Wilson Plaza
1300 Pennsylvania Avenue NW
Washington, DC 20004–3027

The Wilson Center

wilsoncenter.org
wwoodrowwilsoncenter
@thewilsoncenter
202.691.4000

Wahba Institute for Strategic Competition

wilsoncenter.org/wisc