# CONGRESSIONAL BUDGET OFFICE
# COST ESTIMATE

March 12, 2014

## H.R. 2548
## Electrify Africa Act of 2014

*As ordered reported by the House Committee on Foreign Affairs on February 27, 2014*

## SUMMARY


H.R. 2548 would extend through 2017 the authority of the Overseas Private Investment Corporation (OPIC) to provide loans and insurance to help U.S. companies invest and expand in overseas markets. It also would require the Administration to encourage the private sector, other nations, international organizations, and nonprofits to increase access to electricity in sub-Saharan Africa. CBO estimates that implementing the legislation would save $86 million over the 2014-2019 period, assuming appropriation actions consistent with the bill. Pay-as-you-go procedures do not apply because enacting this legislation would not affect direct spending or revenues.

H.R. 2548 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.


## ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 2548 is shown in the following table. The costs of this legislation fall within budget function 150 (international affairs).

## BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 2548 will be enacted in 2014, that the necessary amounts will be appropriated each year, and that outlays will follow historical spending patterns for the affected programs.

| | By Fiscal Year, in Millions of Dollars | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2014-2019 |
| **CHANGES IN SPENDING SUBJECT TO APPROPRIATION** | | | | | | | |
| Reauthorizing OPIC | | | | | | | |
| Administrative Expenses | | | | | | | |
| Estimated Authorization Level | 0 | 2 | 32 | 41 | 41 | 10 | 126 |
| Estimated Outlays | 0 | 2 | 27 | 39 | 40 | 14 | 122 |
| Positive Subsidy Costs for Loans | | | | | | | |
| Estimated Authorization Level | 0 | 27 | 28 | 28 | 0 | 0 | 83 |
| Estimated Outlays | 0 | 1 | 5 | 13 | 17 | 16 | 52 |
| Negative Subsidies for Loans | | | | | | | |
| Estimated Authorization Level | 0 | -18 | -64 | -80 | -74 | -29 | -265 |
| Estimated Outlays | 0 | -18 | -64 | -80 | -74 | -29 | -265 |
| Insurance Programs | | | | | | | |
| Estimated Authorization Level | 0 | -1 | -2 | -2 | 0 | 0 | -5 |
| Estimated Outlays | 0 | * | -1 | -2 | -1 | -1 | -5 |
| Subtotal for Reauthorizing OPIC | | | | | | | |
| Estimated Authorization Level | 0 | 10 | -6 | -13 | -33 | -19 | -61 |
| Estimated Outlays | 0 | -15 | -33 | -30 | -18 | * | -96 |
| Inspector General | | | | | | | |
| Estimated Authorization Level | * | 2 | 2 | 2 | 2 | 2 | 10 |
| Estimated Outlays | * | 1 | 2 | 2 | 2 | 2 | 9 |
| Promoting Access to Electricity | | | | | | | |
| Estimated Authorization Level | * | * | * | * | * | * | 1 |
| Estimated Outlays | * | * | * | * | * | * | 1 |
| Total Changes | | | | | | | |
| Estimated Authorization Level | * | 12 | -4 | -11 | -31 | -17 | -50 |
| Estimated Outlays | * | -14 | -31 | -28 | -16 | 2 | -86 |

Note: OPIC = Overseas Private Investment Corporation; * = between -$500,000 and $500,000.

## Reauthorizing OPIC

OPIC assists U.S. companies to expand and invest overseas by providing direct loans, loan guarantees, and insurance. OPIC's authority to enter into new agreements expires at the end of fiscal year 2014; however, under current law, it would continue to operate for some years after that date to service its existing contracts. Section 8 would extend OPIC's authority to enter into new contracts through 2017.

The bill would not authorize the appropriation of specific amounts. CBO assumes that appropriations would continue for both the administrative costs and the subsidy costs of new loans and guarantees as defined in the Federal Credit Reform Act (FCRA).[1] Some of the loans OPIC provides yield a net budgetary savings under the cost formula specified in FCRA, which requires that the expected government cash flows be discounted using the rates on Treasury securities of comparable maturity. In recent years, OPIC has generated sufficient receipts through such loans with negative subsidies to more than offset its other costs.

CBO estimates that implementing section 8 would yield net savings of $96 million over the 2015-2019 period, assuming appropriation actions consistent with the bill. The components of that estimate are discussed below.

**Administrative Expenses.** Based on information from OPIC, CBO estimates that under current law the agency would begin reduce its staffing in 2015 but severance payments would keep administrative expenses at the current level ($63 million) in that year. Thus, under the bill, CBO estimates that reauthorizing OPIC would require additional appropriations of only $2 million in 2015 for administrative expenses. Over the 2015-2017 period, CBO estimates that OPIC's total administrative expenses would grow by 2 percent each year. In 2018, when its authorization would expire, CBO estimates that severance payments associated with staff reductions would keep administrative expenses at the same level as in 2017 but that by 2019 the additional amounts needed would begin to decline. Assuming appropriation of the estimated amounts, CBO estimates that under section 8 administrative expenses would increase by $122 million over the 2015-2019 period.

**Positive Subsidy Costs.** CBO estimates that in 2015 OPIC would require appropriations of $27 million for the subsidy cost of new agreements (that amount is identical to the enacted level for 2014). Based on information from OPIC about its recent and projected growth, CBO estimates that over the 2015-2017 period the subsidy appropriations that OPIC would require would grow by 2 percent each year. Starting in 2018, when OPIC's authorization to provide new loans and insurance would expire, it would not need a subsidy appropriation. Assuming appropriation of the necessary amounts, CBO estimates that subsidy costs under section 8 would increase by $52 million over the 2015-2019 period.

**Negative Subsidies.** Some of OPIC's loan programs have lower default rates and higher fees than its other products and, thus, generate net collections to the government. Based on information from OPIC, CBO estimates that under section 8 it would collect an additional $18 million in 2015 and $265 million over the 2015-2019 period.

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1. Under the Federal Credit Reform Act of 1990, the subsidy cost of a direct loan or loan guarantee is the net present value of estimated payments by the government to cover defaults and delinquencies, interest subsidies, or other expenses, offset by any payments to the government, including origination fees, other fees, penalties, and recoveries on defaulted loans. The net present value does not include the cost of market risk. Such subsidy costs are recorded in the budget when the loans are disbursed.

**Insurance Programs.** OPIC's insurance programs offer protection against political risks associated with investing overseas such as expropriation, political violence or civil strife, and currency inconvertibility. Information from OPIC suggests that most policies have terms of 20 years and that reauthorizing OPIC for three years would cause only small changes in net collections. CBO estimates that under section 8 OPIC would collect an additional $5 million over the 2015-2019 period.

**Inspector General**

Section 8 also would establish an Inspector General (IG) for OPIC. Currently, the IG for the United States Agency for International Development (USAID) covers OPIC's programs. Based on information from OPIC, CBO estimates that the agency would hire one IG and three support staff and would contract out certain functions such as financial auditing. After including costs for compensation, office space, travel, and other expenses and adjusting for lower costs for the USAID IG, CBO estimates that implementing that requirement would cost about $9 million over the 2015-2019 period, assuming appropriation of the necessary amounts.

**Promoting Access to Electricity**

H.R. 2548 would require the Administration to encourage the private sector, other nations, international organizations, and nonprofits to increase access to electricity in sub-Saharan Africa. In June 2013, the President announced a new initiative, dubbed "Power Africa," to double access to power in sub-Saharan Africa. Several federal entities, including OPIC, USAID, the United States Trade and Development Agency, the Millennium Challenge Corporation, and the Export-Import Bank are tasked with providing technical assistance, loans, insurance, grants, and other types of assistance to implement that initiative. Based on information from some of those entities, CBO expects that most of the bill's requirements relating to promoting access to electricity will be implemented under that initiative. CBO estimates that implementing new requirements, such as the development of a comprehensive strategy and subsequent reports to the Congress, would cost less than $500,000 each year and total $1 million over the 2014-2019 period, assuming the availability of appropriated amounts.

**PAY-AS-YOU-GO CONSIDERATIONS**: None.

## INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 2548 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

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