Case Study

US International Development Finance Corporation

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Introduction

Established in 2019, the US International Development Finance Corporation (DFC) originated through the Better Utilization of Investments Leading to Development (BUILD) Act which passed on 5 October 2018. As a development finance institution, its role is to mobilise private capital to support development projects around the world (Dresner, 2021). The DFC sees the capabilities of USAID's Development Credit Authority (DCA) and Overseas Private Investment Corporation (OPIC) coming together to strengthen and modernise American development finance. It has a liability limit of USD 60 billion, compared to its predecessor's (OPIC) USD 29 billion (Kenny, 2019). This is likely to cement the US DFC as the largest western bilateral development finance institution (Kenny, 2019).

Need to mobilise private capital for development

The world is facing an increasing number of global challenges, such as climate change, growing income inequality, financial crises and the COVID-19 pandemic. These challenges disproportionately affect economically developing countries. Development Finance Institutions are tools for mobilising private capital to support development projects around the world (Dresner, 2021). During its first six months of operations, the recently formed DFC saw approximately 75% of its projects taking place in low-income countries (LICS), low- and middle-income countries (LMICs), and fragile states. DFC investments are made in various sectors including energy, healthcare, critical infrastructure, and education (DFC, n.d.-e).

Financing modalities of the Development Finance Corporation

The DFC presents an opportunity to operate on a large scale and also to work with other US agencies and allies abroad (Runde et al., 2020). The DFC offers investment capital and support for development in emerging markets through six financial modalities (DFC, n.d.-d). These are:

- **Debt Financing:** DFC offers two main debt financing products: (i) direct loans and (ii) partial loan guarantees. These debt financing tools are available for up to USD 1 billion for tenors as long as 25 years. There are also specific programmes tailored to small and medium-sized enterprises (SMEs).
- **Equity Investments**: DFC direct equity investments support companies committed to making a developmental impact. DFC has the flexibility to invest in early and growth-stage companies, partner with financial institutions, and enable the scale-up of investee operations.
- **Investment Funds:** DFC supports emerging markets to help address the shortfall of investment capital and help these economies access long-term growth capital, management skills, and financial expertise.
- **Political Risk Insurance:** DFC provides up to USD 1 billion of coverage against losses due to currency inconvertibility (not including currency devaluation), government interference, and political violence, including terrorism.

- **Feasibility Studies and Technical Assistance:** DFC accelerates project identification and preparation to better attract and support private investment. Projects that receive, or may receive, DFC financing or insurance support will be designed to increase their developmental impact or commercial sustainability.

DFC for Education

"Education is one of the most effective tools for increasing opportunity, strengthening communities, and helping families move out of poverty" (DFC, n.d.-b). DFC investments are enabling affordable education to primary, secondary and university students in developing countries. The supported projects include building and expanding schools, introducing innovative models to reach more students, and helping schools to operate in challenging environments. Two DFC financed projects are detailed below.

Bringing virtual education to Sub-Saharan Africa

Challenge

In Sub-Saharan Africa, more than 50 million students are unable to attend school, a challenge that disproportionately affects girls. One of the main barriers to education is the inability to pay school fees. Additionally, a shortage of teachers and the limited access to textbooks make it difficult to learn and thrive in school (DFC, n.d.-a).

Solution

The DFC is providing finance to the Unreasonable Capital Investment Fund which is enabling Eneza Education to bring virtual learning technology to rural Africa. Eneza's mobile education programme, available for 50 cents per month, is bringing educational support to many poor families having already reached more than six million students across Côte d'Ivoire, Ghana and Kenya to date. The mobile education programme provides access to courses and assignments as well as live learning with instructors, and the ability to interact with tutors and peers alike from any mobile phone. This programme is increasing the students' typical time spent studying and as well as their academic performance (DFC, n.d.-a).

Continuing education through COVID-19

Challenge

The stay-at-home orders during the COVID-19 pandemic have exacerbated the challenges of providing affordable quality education in India. With roughly 61% of the Indian population living on less than USD 2.50 a day, many families have limited access to computers or smart devices. Additionally, schools serving low-income communities struggle to pivot to online learning due to a lack of technology (DFC, n.d.-c).

Solution

DFC financing to Varthana is supporting thousands of small affordable private schools to fill the gap that government schools cannot. Varthana provides loans for schools to invest in equipment, technology, teacher training, and basic facilities. When the pandemic forced these schools to shut, Varthana also assisted with online learning plans that would be accessible for families with basic phones. In doing so, the private schools were able to withstand the effects of the pandemic by staying in business and students in 1,300 schools were able to continue their education through live online classes on low-tech devices (DFC, n.d.-c).

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