CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

August 13, 2014

S. 2508
Energize Africa Act of 2014

As reported by the Senate Committee on Foreign Relations on July 24, 2014

SUMMARY

S. 2508 would extend through 2019 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 nonprofit entities to increase access to electricity in sub-Saharan Africa. CBO estimates that, on net, implementing the legislation would save $135 million over the 2015-2019 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.

S. 2508 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 S. 2508 is shown in the following table. The outlay effects of this legislation fall within budget function 150 (international affairs).

BASIS OF ESTIMATE

For this estimate, CBO assumes that S. 2508 will be enacted near the beginning of fiscal year 2015, 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					
	2015	2016	2017	2018	2019	2015-2019
CHANGES IN SPENDING SUBJECT TO APPROPRIATON						
Reauthorizing OPIC						
Administrative Expenses						
Estimated Authorization Level	2	32	41	43	46	164
Estimated Outlays	2	27	39	42	45	155
Positive Subsidy Costs for Loans						
Estimated Authorization Level	27	28	28	29	30	142
Estimated Outlays	1	5	13	18	21	58
Negative Subsidies for Loans						
Estimated Authorization Level	-18	-64	-80	-92	-97	-352
Estimated Outlays	-18	-64	-80	-92	-97	-352
Insurance Programs						
Estimated Authorization Level	-1	-2	-2	-2	-2	-9
Estimated Outlays	*	-1	-2	-2	-2	-7
Subtotal for Reauthorizing OPIC						
Estimated Authorization Level	10	-6	-13	-22	-23	-54
Estimated Outlays	-15	-33	-30	-34	-33	-145
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	-20	-21	-43
Estimated Outlays	-14	-31	-28	-32	-31	-135

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

Amounts may not sum to totals because of rounding.

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 201 would extend OPIC's authority to enter into new contracts through 2019.

The bill would not authorize the appropriation of specific amounts. For the purpose of this estimate, 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 budgetary savings from such loans to more than offset its other costs.

CBO estimates that implementing section 201 would yield net savings of $145 million over the 2015-2019 period, assuming appropriation actions consistent with the bill. The components of that estimate are discussed below.

Administrative Expenses. CBO estimates that implementing S. 2508 would increase OPIC's administrative expenses by $2 million in 2015, to about $65 million. Based on information from OPIC, CBO estimates that without the reauthorization, the agency would begin reducing its staffing in 2015 but that severance payments would keep administrative expenses at the current level ($63 million) in that year. In following years, administrative expenses would decline under current law.

Under the bill, CBO estimates that reauthorizing OPIC would require additional appropriations of $2 million in 2015 for administrative expenses. Over the 2015-2019 period, CBO estimates that OPIC's total administrative expenses would grow by about 2 percent each year. Assuming appropriation of the necessary amounts, CBO estimates that under the bill administrative expenses would increase by $155 million over the 2015-2019 period.

Positive Subsidy Costs for Loans. CBO estimates that appropriations for new agreements with positive subsidy costs would amount to $27 million in 2015 (that amount is identical to the enacted appropriations for 2014). Based on information from OPIC about recent and projected growth in its lending, CBO estimates that over the 2015-2019 period subsidy appropriations to support OPIC's lending would total $142 million. Assuming appropriation of the necessary amounts, CBO estimates that outlays for those subsidy costs would increase by $58 million over the 2015-2019 period. (Outlays would lag behind appropriations, reflecting the expected pace of disbursements of new loans.)

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.

Negative Subsidies for Loans. Some of OPIC's loan programs have lower default rates and higher fees than its other products and, thus, yield net savings to the government as defined by FCRA. Based on information from OPIC, CBO estimates that under the bill those negative subsidies would amount to an additional $18 million in 2015 and $352 million over the 2015-2019 period.

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 five years would cause only small changes in net collections. CBO estimates that under the bill OPIC would collect an additional $7 million over the 2015-2019 period.

Other Provisions Affecting OPIC. Section 209 would authorize OPIC to hire up to 20 people for temporary appointments on a noncompetitive basis. OPIC has indicated that it would make limited use of that authority and would not significantly expand hiring. Sections 204 and 205 would require the agency to implement two pilot programs to expand eligibility for its programs. Based on information from OPIC and assuming the availability of appropriated funds, CBO estimates that implementing those provisions would cost less than $500,000 over the 2015-2019 period.

Inspector General

Section 207 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 an 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 have a net cost of $9 million over the 2015-2019 period, assuming appropriation of the necessary amounts.

Promoting Access to Electricity

S. 2508 would require the Administration to encourage the private sector, other nations, international organizations, and nonprofit entities 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 roughly $1 million over the 2015-2019 period, assuming the availability of appropriated funds.

PAY-AS-YOU-GO CONSIDERATIONS: None.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 2508 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

PREVIOUS CBO ESTIMATE

On March 12, 2014, CBO transmitted a cost estimate for H.R. 2548, the Electrify Africa Act of 2014, as ordered reported by the House Committee on Foreign Affairs on February 27, 2014. The two bills are similar; however, S. 2508 would extend OPIC for two additional years (through 2019) and CBO's estimate of net savings under S. 2508 is correspondingly higher.

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