U.S. International Development Finance Corporation

Political Risk Insurance

Who We Are

U.S. International Development Finance Corporation (DFC) is **America's development bank.** DFC partners with the private sector to finance solutions to the **most critical challenges** facing the developing world today.

What We Offer

Debt Financing

Direct loans and guaranties of up to $1 billion for tenors as long as 25 years, with specific programs targeting small and medium U.S. businesses.

Direct Equity Investments

Support for early and growth-stage companies, enabling investees to scale operations more efficiently and create greater development impact

Political Risk Insurance

Coverage of up to $1 billion against losses due to currency inconvertibility, political violence, expropriation, arbitral award default, denial of recourse, and non-honoring of sovereign financial obligations.

Technical Assistance

Technical assistance develops projects in preparation for DFC investment and furthers the developmental impact of existing DFC investments.

Investment Funds

Support for emerging markets private equity funds to help address the shortfall of investment capital

Political Risks Covered by DFC

Currency Inconvertibility & Transfer

Political Violence, War, & Civil Disturbance (Assets, Lost Business Income, Forced Abandonment)

Expropriation and Takings, Arbitral Award Default & Denial of Recourse

Breach of Contract for Capital Markets & Non-Honoring of a Financial Obligation

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Currency Inconvertibility & Transfer

Protects against losses due to the inability to: (i) convert local currency into U.S. dollars or major currencies; or (ii) transfer local earnings out of the host country

Examples:

- Excessive delays in converting local currency caused by host government action or failure to act
- Adverse changes in exchange control laws or regulations
- Deterioration in conditions governing the transfer of local earnings

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Political Violence

Protects against losses due to political violence events in the host country

Examples:

- Assets destroyed or damaged by war, revolution, terrorism, and sabotage
- Loss of Business Income due to damage to assets, (can include infrastructure not owned by investor)
- Forced Abandonment due to political violence in host country or region where project is located

Arbitral Award Default & Denial of Recourse

When an investor has a contract with a foreign government or state-owned enterprise, arbitral award default insurance covers the government's failure to pay an arbitral award.

Features:

- Seat of arbitration must be acceptable to DFC
- A final and binding arbitration award is required for DFC to pay a claim
- A sovereign guaranty may be required depending on the project

Expropriation and Takings

Protects against losses due to acts by the host government that deprive the investor of its fundamental rights in the investment

Examples:

Outright expropriation, nationalization, or confiscation of property or ownership rights

Discriminatory treatment and/or regulatory overreach that deprives the investor of its fundamental rights

Benefits of DFC Insurance

Experience

Insurance commitments of more than $53 billion since 1971 in 150+ countries

Catalyzing Role

Attract a larger pool of capital and obtain long-term financing for projects

Halo Effect

Deterrent against detrimental government interference

Advocacy

DFC provides advocacy to insured investors to avert claims situations

Partnership

DFC cooperates with private insurers and multilateral insurers

Claims Record

+$1B in claim payments and settlements

~nearly 100% recovery rate

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Types of Insurable Investments

Equity

Equity, including retained earnings and shareholder loans

Debt

Loans, bonds, and capital or operating leases from 3rd party financial institutions

Gov't Agreements

Contracts to provide goods or services to government or SOE

Concession or offtake agreements

Wrongful calling on bid bonds, performance bonds, customs bonds

Private Contracts

Service contracts between two private parties

Assets

Tangible property, including consigned equipment

Insurance Terms & Conditions

- Per project limit: US$1 billion
- No minimum project size
- Term: 20+ year coverage (3 year minimum)
- Coverage and retained risk requirement:
  - 90% for equity (10% self-insurance)
  - 100% for debt
- Premium rates fixed for full term of coverage

Eligible Investors:

- Private sector entities (U.S. and non-U.S. entities)
- Qualifying Sovereign Entities
- Private and public insurers

Specialized Coverages

Breach of Contract for Capital Markets

Non-Honoring of a Financial Obligation

Breach of Contract for Capital Markets (BCCM)

Eligible Insured: BCCM is available for investors (issuers of bonds) entering into a loan agreement with the host government related to a specific project. Target investors/noteholders include institutional investors (life insurance companies, private pension funds, asset managers).

Coverage: BCCM protects the Insured against the risk of the host government's failure to pay an international arbitral award (Arbitral Award Default) and any efforts of the host country to thwart or frustrate the Insured's reasonable efforts to arbitrate disputes (Denial of Recourse).

Key Features of BCCM Coverage

Arbitral Award Required

A final and binding arbitration award is required for DFC to pay a claim

Long Policy Terms

Policy terms may be 20+ years in length

Coverage Amounts & Premium Rates

Net coverage up to $1 billion per project. Pricing locked in for life of coverage

Government Guaranty

A sovereign guaranty may be required depending on the project

Coverage Amounts

100% available for commercial banks and bond capital

Guidelines for BCCM Coverage

New York Convention: the sovereign must be a signatory to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards of 1958 (the New York Convention)

Sovereign Guaranty: if a loan is to a State-Owned Enterprise, DFC might require that the host government provide a sovereign guaranty

Arbitration: arbitration proceedings must have a seat acceptable to DFC and follow the rules of a recognized international arbitration body (e.g., UNCITRAL, ICSID, ICC, etc.); capital markets financings can require expedited arbitration administration with debt service and arbitration cost reserves

Non-Honoring of a Financial Obligation (NHFO)

Eligible Insured: NHFO is available for commercial banks and financial institutions (including syndicated loans), and capital markets investors (privately placed bonds and 144A issuances).

Coverage: NHFO provides assurance of timely debt service payments to banks or bondholders if the borrower (the host government or a state-owned entity of the host government) defaults on its payment. If the borrower is a state-owned entity, DFC might require a sovereign guaranty.

Key Features of NHFO Coverage

Basel Compliant	Timeliness of Payment	Long Policy Terms Available	Coverage Amounts & Premium Rates	Customized Coverage
Backed by the full faith and credit of the U.S. Government	No arbitration award is required for DFC to pay a claim	Policy terms may be 20+ years in length	Net coverage up to $1 billion per project with customized pricing locked in for the life of the coverage	100% Coverage of the loan value for unaffiliated financial institutions/bond capital markets; 5% self-insurance requirement for commercial banks

Guidelines for NHFO Coverage

Sovereign Guaranty: if required by DFC, the host government must provide an unconditional, irrevocable guaranty with no defenses, with a dispute resolution clause acceptable to DFC

Public Rating: the sovereign must have a public rating of at least B/B+ or B2/B1; support for a country subject to an IMF/World Bank Debt Sustainability Framework is considered on case-by-case basis

New York Convention: the sovereign must be a signatory to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards of 1958 (the New York Convention)

Legal Opinion: internationally recognized legal counsel must provide a legal opinion that the insured agreement has been executed in accordance with local law and is valid, binding, enforceable, unconditional, and irrevocable

Guidelines for NHFO Coverage

Development Impact: the project must be strategic for the host country and highly developmental, with significant anticipated impacts in local job creation and/or in one or more of DFC's priority investment areas

DFC Policy Standards: project proposals must satisfy all DFC policy criteria, including international environment and social standards, and anti-corruption practices

Private Sector Risk: the project must have private sector participants at risk in the host country, which may include private sector ownership, private suppliers, or private sector contractors or construction companies

Project Financial Viability: the project must be financially sustainable, with significant revenues and cost savings that result directly from the project, such as user fees, tolls, or off-take commitments.

Contacts & Resources

Contact

U.S. International Development Finance Corporation (DFC)

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Resources

For more information, visit **www.dfc.gov.**

Additional Information

[Read the Belize Blue Bonds Case Study]

[Review DFC’s Past Claims and Arbitral Awards]

[Apply for Insurance through the DFC Forms Portal]