Bringing US Development Finance into the 21st Century: Proposal for a Self-Sustaining, Full-Service USDFC

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Summary

The imperative for US development finance has increased significantly due to a number of factors over the last decade. There is growing demand for private investment and finance from businesses, citizens, and governments in developing countries. Given the scale of challenges and opportunities, especially in promoting infrastructure investments and expanding productive sectors, there is an increasingly recognized need to promote private sector-based solutions. Well-established European development finance institutions (DFIs) now provide integrated services for businesses that cover debt and equity financing, risk mitigation, and technical assistance. Many of their governments have embraced financially self-sustaining approaches to promoting development outcomes, which impose no net costs on taxpayers. Separately, several emerging market actors – including China, India, Brazil, and Malaysia – have dramatically increased financing activities in a number of developing regions, such as Latin America and Sub-Saharan Africa. This also includes the establishment of several new large multilateral financing institutions, such as the BRICS Bank and the Asian Infrastructure Investment Bank.

In contrast, existing US development finance efforts have not been deployed in an efficient or strategic manner due to outdated authorities, insufficient staff resources, and dispersion of tools across a broad number of government agencies. The US government's primary development finance vehicle is the Overseas Private Investment Corporation (OPIC), which provides investors with debt financing, loan guarantees, political risk insurance, and support for private equity investment funds. However, with few exceptions, OPIC has not evolved since its establishment in 1971. Beyond OPIC, there are a number of other modest programs within US aid agencies, such USAID's Development Credit Authority, USAID enterprise funds, and US Trade and Development Agency's feasibility studies and technical assistance.

Within this context, we assess the need for a US Development Finance Corporation (USDFC) and provide a series of options for how it could be structured in a manner consistent with bipartisan congressional support. This includes an overview of existing US government institutions and programs that support private sector-based development approaches, including any gaps or redundancies across them. With respect to the proposed DFC, we focus on several core issues, including: (1) products, services, and tools; (2) size, scale, and staffing requirements; (3) governance structures as well as oversight and accountability functions; (4) performance metrics; and (5) capital structure and financial sustainability models. Finally, we conclude with a notional implementation roadmap that includes the required US executive and legislative actions.

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A. Introduction

The imperative for US development finance has increased significantly due to a number of factors over the last decade. There is growing demand for private investment and finance from businesses, citizens, and governments in developing countries. Given the scale of challenges and opportunities, especially in promoting infrastructure investments and expanding productive sectors, there is an increasingly recognized need to promote private sector-based solutions. Well-established European development finance institutions (DFIs) now provide integrated services for businesses that cover debt and equity financing, risk mitigation, and technical assistance. Many of their governments have embraced financially self-sustaining approaches to promoting development outcomes, which impose no net costs on taxpayers. Separately, several emerging market actors – including China, India, Brazil, and Malaysia – have dramatically increased financing activities in a number of developing regions, such as Latin America and Sub-Saharan Africa. This also includes the establishment of several new large multilateral financing institutions, such as the BRICS Bank and the Asian Infrastructure Investment Bank.

In contrast, existing US development finance efforts have not been deployed in an efficient or strategic manner due to outdated authorities, insufficient staff resources, and dispersion of tools across a broad number of government agencies. The US government's primary development finance vehicle is the Overseas Private Investment Corporation (OPIC), which provides investors with debt financing, loan guarantees, political risk insurance, and support for private equity investment funds. However, with few exceptions, OPIC has not evolved since its establishment in 1971. Beyond OPIC, there are a number of other modest programs within US aid agencies, such USAID's Development Credit Authority, USAID enterprise funds, and US Trade and Development Agency's feasibility studies and technical assistance.

Furthermore, the political and economic environment within the United States has also changed dramatically, particularly over the last five years. First, the US development assistance budget has become increasingly constrained, with growing pressure to cut programs. Second, traditional development dynamics are shifting rapidly from a donor/recipient aid relationship to partnerships involving public and private actors. The Obama Administration's Power Africa Initiative and New Alliance for Food Security illustrate this trend. Third, most US aid agencies typically are not positioned to address many pressing development priorities, such as expanding economic opportunities in frontier markets. These trends suggest the need for further US government prioritization of private sector-based development models.

There is growing recognition amongst a wide variety of researchers, practitioners, business leaders, and advocacy organizations on the need to modernize how the US government supports these approaches. In April 2014, President Obama's Global Development Council, chaired by ex-PIMCO CEO Mohamed El-Erian, called for a full-service and self-sustaining US Development Finance Bank.[1] In June 2014, the US Advisory Board on Impact Investing – consisting of nearly 30 prominent investors, foundations, and academics – issued a similar call for a consolidated, scaled-up institution.[2] A number of leading think tank institutions – including the Brookings Institution, Center for Strategic and International Studies (CSIS), and the Council on Foreign Relations – have also proposed a series of significant US development finance reforms.[3]

Within this context, we assess the need for a US Development Finance Corporation (USDFC) and provide a series of options for how it could be structured in a manner consistent with bipartisan congressional support. This includes an overview of existing US government institutions and programs that support private sector-based development approaches, including any gaps or redundancies across them. With respect to the proposed DFC, we focus on several core issues, including: (1) products, services, and tools; (2) size, scale, and staffing requirements; (3) governance structures as well as oversight and accountability functions; (4) performance metrics; and (5) capital structure and financial sustainability models. Finally, we conclude with a notional implementation roadmap that includes the required US executive and legislative actions.

B. New Development Finance Landscape

International Context

The strategic imperative for US development finance has increased tremendously due to a number of factors. These include: growing citizen and business demand, entry of new emerging market actors, and a shift towards more modern and private sector-oriented development approaches.

Citizens in Latin America, Africa, and other regions are most concerned about employment and economic opportunities. According to representative surveys, over two-thirds of African citizens cite employment, infrastructure (electricity, roads, water/sanitation), inequality, and economic and financial policies as the most pressing

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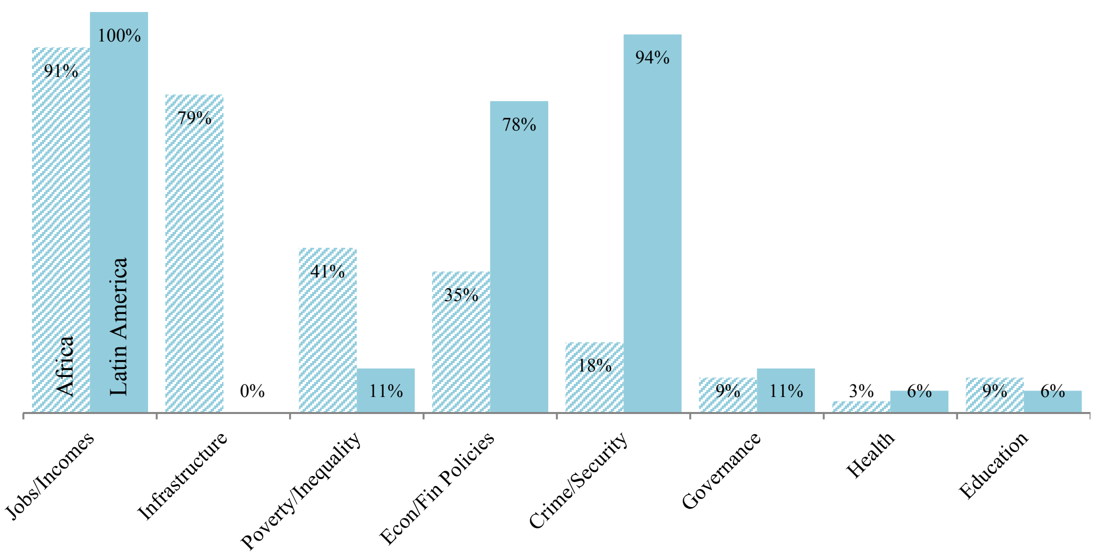
[1] President's Global Development Council (2014). *Beyond Business As Usual*, Washington DC.
[2] US National Advisory Board on Impact Investing (2014). *Private Capital, Public Good: How Smart Federal Policy Can Galvanize Impact Investing — and Why It's Urgent*, Washington DC.
[3] Kharas, Homi, George Ingram, Ben Leo, and Dan Runde (2013). *Strengthening U.S. Government Development Finance Institutions*. Center for Global Development.

problems facing their nations.[4] In Latin America, roughly 60 percent of survey respondents cite employment, economic and financial policy issues, along with crime and security-related concerns. In contrast, only 20 percent of Africans and Latin Americans are most worried about health, education, food security, or environmental issues. East Asian surveys suggest similar patterns in citizen priorities, with between 66 percent and 80 percent of surveyed individuals citing employment (including agriculture), economic and financial policies, and infrastructure as their most pressing problems.[5]

Figure 1 – Cited As Top 3 National Problem, % of Surveyed African and Latin American Countries



Source: Afrobarometer, Latinbarometer, and authors' calculations

Businesses in emerging and frontier markets are most constrained by inadequate access to capital, unreliable electricity, burdensome tax policies, and unstable political systems. Access to finance and reliable electricity are the most frequently cited issue in almost half of the 81 surveyed developing countries, and negatively impact firms in all developing regions.[6] By illustration, roughly two-thirds of surveyed Nigerian and Pakistani firms cite unreliable electricity as their biggest constraint. Nearly half of firms in Cote d'Ivoire, Indonesia, and Zimbabwe cite access to finance as their biggest challenge.

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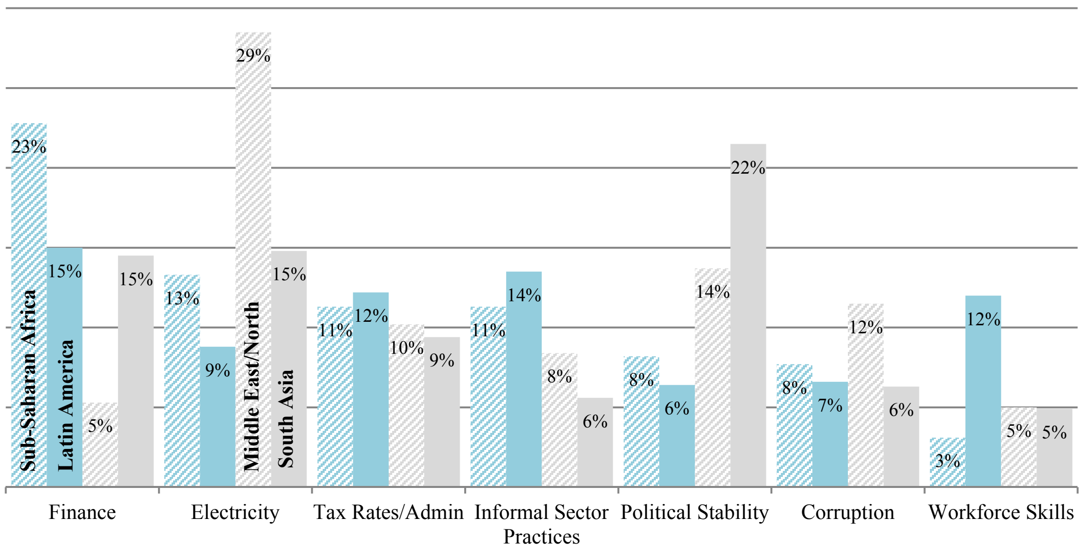
[4] Leo, Benjamin (2013). *Is Anyone Listening? Does US Foreign Assistance Target People's Most Pressing Priorities?* Center for Global Development.
[5] Leo, Ben and Khai Hoan Tram (2012), *What Does the World Really Want from the Next Global Development Goals?* ONE Campaign.
[6] These figures cover 81 low- and lower-middle income countries with recent completed World Bank enterprise surveys. For details, see www.enterprisesurveys.org/data.

Figure 2 – Biggest Obstacle Cited by Businesses, Percentage of Total Responses



Source: World Bank Enterprise Surveys and authors' calculations

The relative and absolute importance of foreign aid has declined significantly over the last two decades. In 1990, aid exceeded 20 percent of gross national income in 13 developing countries (out of 120 examined countries).[7] That figure had fallen to only four in 2012 (Afghanistan, Burundi, Liberia, and Malawi), despite a doubling of total global aid during the same period from $59 billion to $133 billion. The exponential increase in government revenues, driven by both economic growth and improved tax administration, has been even more striking. Excluding the BRICS, government revenues quadrupled from roughly $600 billion in 2000 to $2.6 trillion in 2012. This trend has been equally as striking in low-income countries, which experienced a four-fold increase in government revenues between 2002 and 2012 (see figure below).[8] This suggests that the imperative for mobilizing resources for public sector investments in developing countries, which has driven the majority of US government attention traditionally, has lessened over time.

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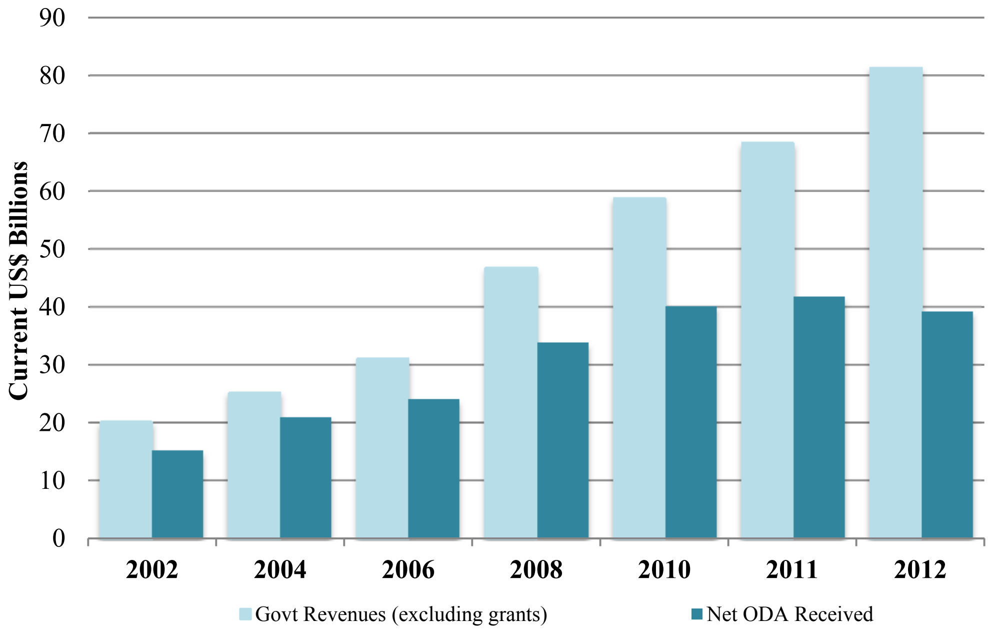
[7] Source: World Bank (2014). *World Development Indicators* 2014. This universe of countries includes low-, lower-, and upper-middle income countries. For the purpose of this analysis, we excluded micro-states, such as Tuvalu and American Samoa. The list of aid-dependent countries in 1990 includes: Burundi, Cape Verde, the Gambia, Guinea-Bissau, Guyana, Jordan, Malawi, Mauritania, Mozambique, Nicaragua, Somalia, and Tanzania.

[8] The World Bank defines 'low-income' as a gross national income per capita of $1,045 or less in 2013. Based on this definition, there were 34 low-income countries. For additional details, see http://data.worldbank.org/about/country-and-lending-groups.

Figure 3 – Government Revenues versus Net Aid Received, Low-Income Countries



Source: World Bank and authors' calculations

Foreign government partners are increasingly focused on attracting private investment, especially in infrastructure and productive sectors. Nearly every national development strategy includes a strong emphasis on attracting private investment for physical infrastructure (e.g., electricity and transport) and labor-intensive sectors such as agriculture, services, and manufacturing.[9] This reflects the political imperative of establishing more inclusive economic opportunities in the near- and medium-term for rapidly expanding working age populations in many regions. By illustration, youth (aged 0-14) account for roughly 40 percent of the total population in Sub-Saharan Africa.

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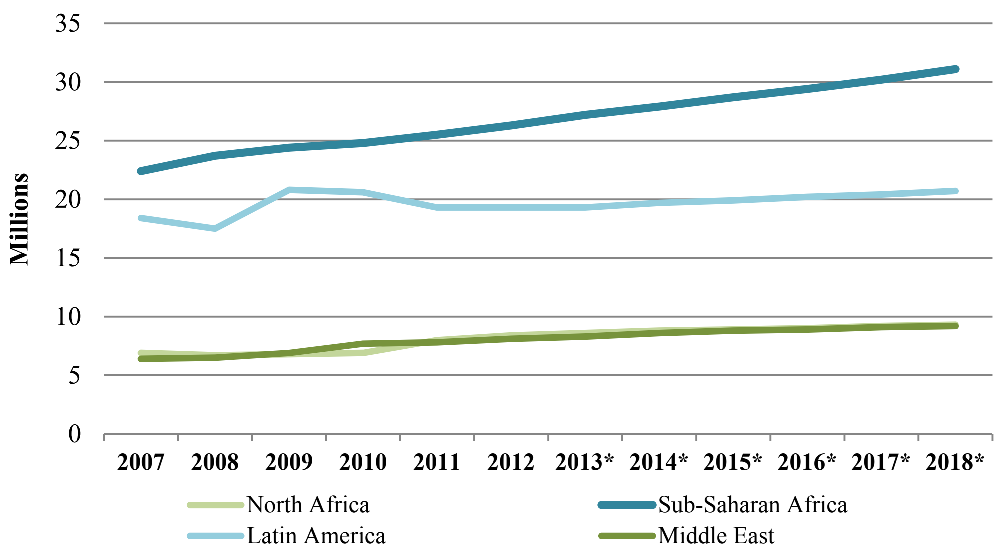
[9] For examples, see http://www.imf.org/external/np/prsp/prsp.aspx.

Figure 4 – Number of Unemployed People, by Region[10]



Source: International Labor Organization (2014)

At the same time, the development finance landscape has changed dramatically, with the entry of several emerging market actors. The China Development Bank and China Export-Import Bank were established in 1994. Both now have major financing portfolios throughout the world, particularly in Latin America and Sub-Saharan Africa. However, China is far from the only emerging market actor in developing countries. Founded in 1982, the India Export-Import Bank provides equity finance, loans, trade finance, guarantees, and advisory services. While the majority of its activities focus on trade finance, the India Export-Import Bank supported overseas investments by 49 Indian businesses in twenty countries in 2012/13.[11] Similarly, Malaysia, Turkey, Brazil, and other countries have public entities that provide project and trade finance as well as guarantees. Beyond this, emerging market nations have also established new multilateral financing entities – such as the New Development Bank (commonly referred to as the BRICS Bank) and the Asian Infrastructure Investment Bank – which may channel significant financial resources to developing countries, especially in Asia and Sub-Saharan Africa (see Box 1 below).

[10] Asterisk denotes an estimate or projection figure.
[11] Source: India Export-Import Bank (2013). *Annual Report 2012/13.*

Box 1 – BRICS Bank

In July 2014, heads of state from Brazil, China, India, Russia, and South Africa formally signed the long-awaited agreement to establish the New Development Bank. This institution, which will be based in Shanghai, will be capitalized initially through $10 billion commitments from each of the five members. Over time, they aim to expand the capital base to $100 billion. It is authorized to provide up to $34 billion in lending each year. The New Development will focus primarily on infrastructure financing, similar to the Asian Infrastructure Investment Bank. Both institutions are popularly viewed as an attempt to reduce the influence of existing multilateral agencies (i.e., the World Bank and Asian Development Bank) and traditional bilateral donors. Additional countries may join the institution; however, the BRICS' capital share may not fall below 55 percent. The first Bank president will be from India while chairmen for the Board of Directors and Board of Governors will be Brazilian and Russian. Lastly, an African regional center will be established in Johannesburg, South Africa.

The BRICS also established a $100 billion Contingent Reserve Arrangement (CRA), which will help developing countries respond to balance-of-payments and liquidity crises. This function largely replicates, or potentially even replaces in specific circumstances, the IMF's role in responding to macroeconomic crises. Of $100 billion in paid-in and callable capital, the member countries' contributions are as follows: (i) China ($41 billion); (ii) Brazil, India, and Russia ($18 billion each); and (iii) South Africa ($5 billion).

In addition, many well-established organizations in traditional donor capitals now provide integrated services for businesses that cover financing, risk mitigation, and technical assistance. Historically, political risk insurance accounted for the majority of traditional development finance institution (DFI) activities. Yet, an increasing number of institutions have established bundled service capabilities, including: FMO (Netherlands), DEG (Germany), Proparco (France), and the International Finance Corporation (IFC, the private sector arm of the World Bank Group). Within these organizations, equity investments now account for a significant share of financing activities, particularly for the IFC.[12] As noted above, several emerging market players – such as the India Export-Import Bank – also provide the full spectrum of financial and business services.

US Domestic Context

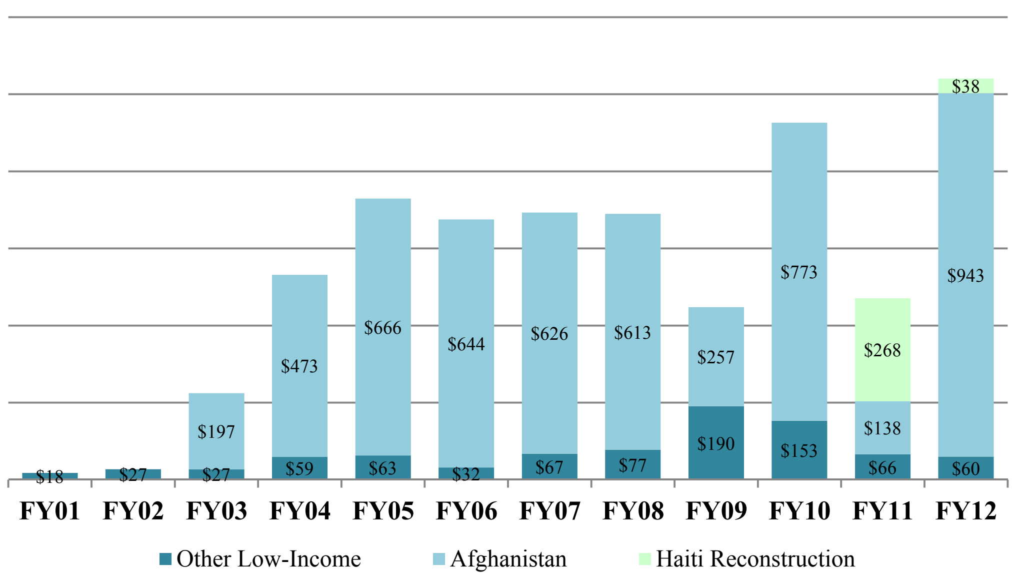
The political and economic environment within the United States has also changed dramatically, particularly over the last five years. Fiscal consolidation has replaced the expansionary period for foreign assistance budgets, which continued almost uninterrupted since the late 1990s. With increased budgetary constraints, the US

[12] In 2012, the IFC derived 58 percent of its operational profits from equity investments. The FMO and DEG generated 40 percent and 31 percent of their profits from equity investments.

Congress is focused on ensuring that scarce taxpayer resources are allocated strategically, efficiently, and produce the maximum impact on the ground. Moreover, there has been a growing shift towards win-win development partnerships, as opposed to more paternalistic donor-recipient relationships. Lastly, there is a growing appreciation that the private sector is best positioned to address many development priorities.

The US development assistance budget has become increasingly constrained, with growing pressure to cut programs. At the same time, domestic political constituencies have remained strong for many social sector issues, such as: combatting infectious diseases (HIV/AIDS, malaria) and promoting access to education. These activists and vested interests have been remarkably successful at maintaining congressional funding directives. For example, the Global Fund for AIDS, Tuberculosis, and Malaria is now the largest recipient of US multilateral funding.[13] This suggests that any future budgetary cuts will likely be focused on program areas that lack such vocal constituencies, such as economic development programs outside of frontline states. Collectively, this also means that the next presidential administration will be highly constrained in promoting private sector-based development models through traditional development assistance budgets.

Figure 5 – USAID Economic Assistance for Low-Income Countries, USD Millions



Source: USAID Foreign Assistance Database and authors' calculations

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[13] Scott Morris (2013), *Multilateralism-lite from the Administration and Congress*, Center for Global Development, August 7, 2013. Available at http://www.cgdev.org/blog/multilateralism-lite-administration-and-congress.

Development dynamics are shifting rapidly from a traditional donor/recipient aid relationship to partnerships involving public and private actors. The Obama Administration's Power Africa Initiative illustrates this trend. It utilizes a three-pronged approach, focusing upon: (1) developing country government actions (e.g., regulatory reforms); (2) private investor actions (e.g., investing in commercially viable ventures); and (3) US government actions (e.g., co-financing, risk mitigation, and technical assistance to support government reforms). Moreover, the majority of US public sector financing is provided by OPIC, and potentially the US Export-Import Bank. In contrast, USAID and other US agencies are providing modest levels of grant assistance, which typically attempt to address regulatory and business climate issues that hinder private investments.[14]

Most US aid agencies typically are not positioned to address many pressing development priorities, such as expanding economic opportunities in frontier markets. In these contexts, the focus should be on promoting greater engagement by private investors and businesses, as noted above. This means utilizing US agencies like OPIC, the US Export-Import Bank, and the private sector windows of the multilateral development banks. The Millennium Challenge Corporation (MCC) is the noteworthy exception to this dynamic. The MCC provides grant assistance focused on areas that will provide economic growth within relatively well-governed developing countries.

C. Existing US Private Sector-Based Development Programs

"*The greatest contribution this nation can make to developing countries is through increased investment in their developing markets. Private investment by American companies continues to be the most effective way to transfer the financial resources, technology and management skills that play such a vital role in stimulating long-term and independent development. OPIC fulfills an important responsibility by encouraging greater involvement of American business in developing countries, in the process helping our own economy to expand as well.*"

President Ronald Reagan, October 15, 1981

The Overseas Private Investment Corporation (OPIC) is the US government's primary development finance vehicle. It is an independent government agency that mobilizes private capital in emerging and frontier economies to address development challenges and advance U.S. foreign policy objectives. It provides US companies and investors with debt financing, loan guarantees, political risk insurance,

[14] The Millennium Challenge Corporation is an exception to this general trend. It is supporting relatively large grant programs in several Power Africa countries, including Ghana and Tanzania.

and support for private investment funds. OPIC operates on a self-sustaining basis and has provided net transfers to the US Treasury for nearly 40 consecutive years.[15] Since its inception, it has helped to mobilize more than $200 billion of US investment through over 4,000 development-related projects.

With few exceptions, Congress has not allowed OPIC to evolve since it was first established in 1971. The most significant exception relates to support for private investment funds focused on emerging markets, which OPIC began providing in 1987. Instead, the US Congress has gradually imposed a series of policy requirements for OPIC's operations, such as compliance with increasingly stringent social, environmental, and labor standards. Beyond this, it remains highly constrained by insufficient staff and outdated authorities (see section D for details).[16] For instance, OPIC must rely on congressional appropriations to cover annual administrative expenses (e.g., salaries, travel, and office space) despite generating significant profits on a consistent basis. This de facto constraint, driven by congressional unwillingness to expand OPIC's administrative budget and staffing levels, has prevented OPIC from fully leveraging its existing capital base and responding to demand from U.S. businesses and investors.

The US government has a number of other programs within US aid agencies that promote private sector-led development approaches. Examples include USAID's Development Credit Authority, USAID enterprise funds, and US Trade and Development Agency's feasibility studies and technical assistance. The challenge is that these tools are spread across multiple agencies, thereby leading to redundancies, inefficiencies, and lack of coordinated strategic direction.

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[15] Prior to FY1992, OPIC relied exclusively on non-appropriated resources (fees and interest on Treasury securities) to fund its operations. Following the Federal Credit Reform Act of 1990, OPIC was required to receive an appropriation based on an estimate of its direct loan and guarantee programs. From 1992 to 1994, OPIC returned an amount equal to its direct appropriation to the US Treasury. Since FY1998, OPIC's appropriations language has provided the authority to spend from its own income but limited to the amounts provided for in the appropriations act and for the purposes provided by law.

[16] Congressional Research Service (2013), *The Overseas Private Investment Corporation: Background and Legislative Issues*.

- ✓ USAID Development Credit Authority: USAID's Development Credit Authority (DCA) provides partial risk guarantees to unlock private financing in support of U.S. development priorities. It has existing authority to extend guarantees covering four types of activities: (1) individual loans (when both the borrower and lender are known); (2) loan portfolios; (3) corporate or government bonds; and (4) portable loans (when the borrower is known, but the lender has not been identified yet). USAID typically guarantees 50 percent of the total capital mobilized in each transaction. In 2013, DCA approved 26 new partial credit guarantees in 19 countries, which may mobilize nearly $500 million in private capital over time.[17]

- ✓ USAID Enterprise Funds: Since 1989, Congress has appropriated financial resources for a range of enterprise funds, which are capitalized either entirely or partially by USAID grants. These episodic funds provide equity investments in, and loan financing for, private businesses in developing countries. An independent and autonomous board of directors manages each fund while USAID maintains responsibility for operational oversight.[18] This program, which has a mixed track record,[19] originally began with a focus on promoting private enterprise in former Eastern Bloc countries.[20] Several enterprise funds have been launched in other developing regions since then, such as the Middle East and North Africa (Egypt, Tunisia) and Sub-Saharan Africa (Southern Africa Enterprise Development Fund). Upon winding down, the respective funds typically return half of any liquidated investment returns to the US Treasury.

- ✓ US Trade and Development Agency: The US Trade and Development Agency (USTDA) is primarily focused on connecting US businesses to export opportunities in developing countries. However, it also promotes private sector-based development through small-scale financing for feasibility studies and technical assistance programs.[21] These operations are primarily focused on the telecommunications and infrastructure sectors (electricity, transportation, aviation).[22]

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[17] For additional details, see http://www.usaid.gov/sites/default/files/documents/2155/2013_Deals_Public_SummaryFinal.pdf.

[18] Source: US State Department (2004). *U.S. Government Assistance to Eastern Europe under the Support for East European Democracy (SEED) Act*. See http://www.state.gov/p/eur/rls/rpt/37005.htm.

[19] Source: Government Accountability Office (1999). *Enterprise Funds' Contributions to Private Sector Development Vary*. GAO/NSIAD-99-221.

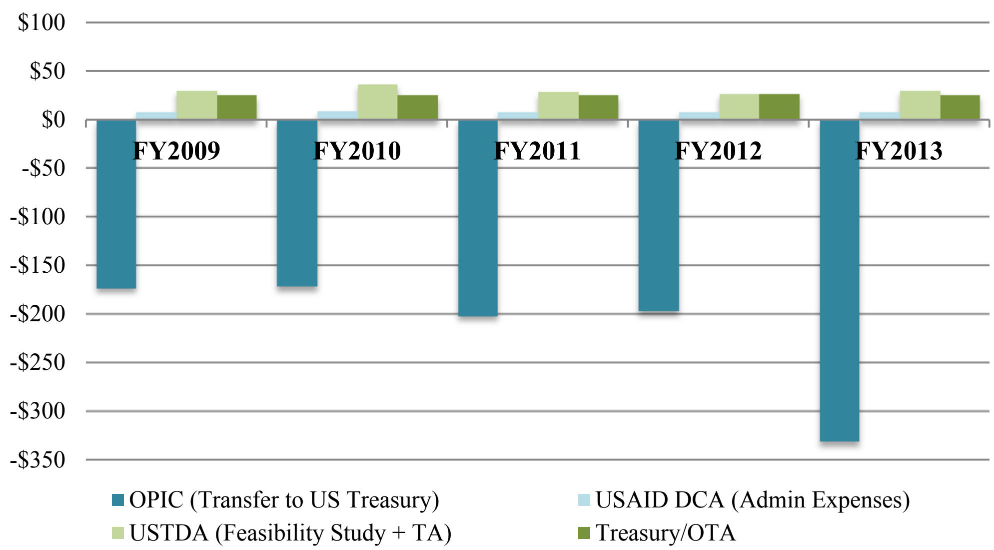
[20] The first enterprise funds focused on Poland and Hungary, which received congressional appropriations of $264 million and $72.5 million. Later funds also covered: (1) Czech Republic and Slovakia; (2) Bulgaria; (3) Russia; (4) Baltic states; (5) Central Asian states; (6) Romania; (7) Western Newly Independent States; and (8) Albania. As of 1999, USAID has authorized $1.3 billion in grant capital for these enterprise funds.

[21] USTDA feasibility study and technical assistance grants have ranged between $27 million and $37 million over the last five years.

[22] Although USTDA actively supports projects in several other economic sectors: agribusiness, manufacturing, mining and natural resources, services, and water and sanitation.

✓ Treasury Office of Technical Assistance: The Office of Technical Assistance (OTA) embeds highly experienced advisors into finance ministries and central banks to promote financial sector strengthening and to improve public financial management.[23] In 2013, OTA provided banking- and financial services-related advisors in 15 countries.[24] It also supported infrastructure finance projects in three Latin American countries (Costa Rica, El Salvador, and Peru). Collectively, these projects had an annual operational budget of roughly $6.5 million. Unlike the other programs cited above, Treasury OTA activities only indirectly promote private sector-based development approaches through broader regulatory reform efforts. The remainder of OTA's operations is focused on public sector finance and governance issues.

Figure 6 – US Government Budget, Net Outlays (USD Millions)



Source: Congressional Budget Justification documents and USTDA annual reports (various years)

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[23] OTA is organized along five functional lines, including: (1) revenue administration and policy; (2) budget and financial accountability; (3) government debt issuance and management; (4) banking and financial services; and (5) economic crimes.

[24] These include: Burundi (EAC project), Cambodia, El Salvador, Ghana, Kenya (EAC project), Libya, Nepal, Nigeria, Rwanda (EAC project), Thailand, Tunisia, Uganda (EAC project), Uruguay, Vietnam, and Yemen. Source: Treasury (2013).

The US government also supports large-scale grant operations through the Millennium Challenge Corporation (MCC) and USAID. These programs help to address a broad range of private sector-based development issues, such as infrastructure (e.g., power and transport) and business climate reforms.

- ✓ Millennium Challenge Corporation: The Millennium Challenge Corporation (MCC) provides large-scale grants to well-performing low- and lower-middle income countries to support poverty reduction through sustainable economic growth. Compared to other US government agencies, the MCC's operational model is unique due to its rigorous country selection process and country-led program development and implementation processes. To date, the MCC has approved over $8 billion in compact and threshold programs.[25] The overwhelming majority has focused on: infrastructure (electricity, transportation), agriculture, and finance and enterprise development.

- ✓ USAID Energy, Education, and Environment Bureau: USAID has a range of programs within its E3 Bureau that promote private enterprise in developing countries. These activities focus largely on four key areas, including: (1) building skills, business, and management capacity; (2) deepening access to finance; (3) supporting business climate reforms; and (4) establishing linkages with US businesses and organizations.[26] In addition, USAID provides technical assistance and grants to support private sector energy transactions and regulatory reforms by developing countries.[27]

D. Proposal for a Modern US Development Finance Corporation

Rationale

> *"A U.S. Development Finance Bank would allow for a far more logical, coherent, and consistent discussion of how best to incorporate private sources of capital, infrastructure, and technology as a means to leverage government investments, foster public-private partnerships, and interact with local private sector actors."*
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> President's Global Development Council, April 14, 2014[28]

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[25] For additional details, see http://www.mcc.gov/pages/about.
[26] For additional details, see http://www.usaid.gov/what-we-do/economic-growth-and-trade/supporting-private-enterprise.
[27] See USAID (2014) for additional details.
[28] President's Global Development Council (2014). *Beyond Business As Usual*. White House.

A modern, scaled-up USDFC would promote US development policy objectives, thereby harnessing America's three greatest strengths – innovation and technology, entrepreneurship, and a deep capital base – at no additional cost to US taxpayers.[29] The US remains among the most innovative economies in the world, whether measured in terms of research and development spending, new patents, or other factors. There is also a deep, historic entrepreneurial culture that bridges both private and public priorities. In addition, the United States has the deepest and most liquid financial markets in the world. The USDFC would harness these comparative advantages in a strategic and scaled-up manner.

The USDFC will make a serious contribution to US foreign policy goals due to the strong alignment with countries' most pressing priorities (e.g., employment and economic opportunities). One of the most effective ways to make, and maintain, close allies and friends in the world is by helping leaders and citizens address what they view as their nation's most pressing problems. Currently, the overwhelming majority of US aid programs focus on second- or third-tier priorities, such as health and education. Social services clearly are important sectors for promoting human welfare and long-term development. However, the related financing increasingly will shift from foreign assistance to government expenditures by developing countries. Moreover, these sectors rarely provide a basis for strategic partnerships that also promote bilateral foreign policy, national security, and commercial policies.

A USDFC would promote America's commercial policy objectives by facilitating investment and business opportunities in the next wave of emerging markets. Most developed countries and many major emerging market countries are aggressively using their development finance institutions to promote national commercial interests. The proposed USDFC would help to ensure that US firms have a fair playing field and do not lose out to global competitors with respect to commercial opportunities in the next wave of emerging markets. While this is not a primary concern for development practitioners, it remains an important consideration for the US Congress and executive branch policymakers.

Products, Services, and Tools

Over time, almost all major DFIs have become full-service institutions that promote private sector-based development. By illustration, the Dutch DFI (FMO) has undergone

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[29] This assumes that the US Congress would enable the US Development Finance Corporation to retain a modest portion of its annual profits to finance grant-based activities, such as technical assistance, advisory services, and feasibility studies. Based on historical program levels, the approach could lead to a financially self-sustaining program covering both lending and non-lending activities (see the figure entitled 'US Government Budget, Net Outlays' in the previous section).

a series of reforms and modifications since it was established in 1970. Through new legislation and institutional actions, the FMO has changed its financial and governance structure as well as products and service offerings to include: concessional loans and grants (1977), technical assistance and advisory services (1977), support for non-Dutch companies (1977), and local currency lending to financial institutions (1984).[30] Due to these evolving changes, it has been a full-service DFI for the last thirty years. The French DFI (Proparco) has experienced a similar, although slightly slower, reform trajectory. Since its establishment in 1977 with the authority to only provide equity investments, it has subsequently expanded its product and service lines to include: medium- and long-term loans (1991), loan guarantees (1991), advisory services (1991), and fund of funds investments (2002).[31]

Figure 7 – Development Finance Institutions, Product and Service Coverage (2013)

Institution	Equity Authority	Technical Assistance	Grants Window	First-Loss Funding	Equity (% of Revenues)
OPIC	**No**	**No**	**No**	**No**	**0%**
FMO (Netherlands)	Yes	Yes	Yes	Yes	17%
Proparco (France)	Yes	Yes	Yes	Yes	9%
CDC Group (UK)	Yes	No	No	Yes, for some impact funds	95%
DEG (Germany)	Yes	Yes, including via BMZ	Yes, feasibility studies	Yes	28%
IFC	Yes	Yes	Yes	Yes	36%

Source: DFI 2013 annual reports

As with other major development finance institutions, the USDFC should offer a full suite of products, services, and tools to promote private sector-based development approaches. This would include: (1) direct loans; (2) loan guarantees; (3) risk insurance; (4) seed financing for independently managed investment funds; (5) direct investments including equity; (6) advisory services; (7) feasibility studies; and (8) technical assistance for business climate reforms.[32] Currently, OPIC can offer the first four of these products and services. Other US agencies – such as USAID, the State Department, US Trade and Development Agency, and the US Treasury Department – have the authority to support the remainder of these activities. The USDFC would consolidate all of these authorities

[30] For additional details, see https://www.fmo.nl/about-us/profile/history.
[31] For additional details, see http://www.proparco.fr/lang/en/Accueil_PROPARCO/PROPARCO/Historique-et-statuts.
[32] The majority of large development finance institutions – such as France's Proparco, Germany's DEG, the Netherlands' FMO, and the International Finance Corporation – offer all of these services for foreign and local investors. The UK's CDC also offers these products and services; with the exception of technical assistance, which can be provided through DfID.

and programs within a single, efficient and market-based institution. This would require Congressional authorization.

The Corporation also should have the authority to support non-US investors in certain circumstances. OPIC currently can only support firms or investors with significant American ownership or operational control.[33] No other major DFI ties their financial engagement to national firms. This flexibility enables other DFIs to promote economic growth and job creation through local businesses in developing countries. For OPIC, this restriction has prevented it from supporting strategic objectives where US investors are not active or prospective participants in a given developing country market or sector. The expanded authority could be limited to: (1) low-income countries; and (2) local firms domiciled in the respective developing country. Firms from developed or middle-income countries, along with their respective subsidiaries, could remain ineligible for USDFC operations unless there were highly compelling benefits to US development or other foreign policy objectives.[34]

Size, Scale, and Staffing

The US Development Finance Corporation's size and scale should be determined by the combination of market demand, ability to demonstrate clear 'additionality', and the maintenance of rigorous credit quality standards and oversight. In addition, it must demonstrate tangible development results throughout its portfolio. As a result, *there should not be an ex-ante target size*. Instead, the Corporation should have the ability to access significant sources of capital to respond to market dynamics and US development objectives, with appropriate oversight by the US Congress and the Office of Management and Budget. Currently, OPIC has legislative authority to support a $29 billion portfolio of loans, guarantees, and insurance.[35] As of 2013, $18 billion of this capacity had been utilized, thereby leaving roughly $11 billion in un-deployed, statutorily available financing due to insufficient OPIC staff to process, originate, execute, and monitor investment deals.

Existing development finance institutions (DFIs) provide a rough benchmark when considering the USDFC's potential scale. The International Finance Corporation (IFC)

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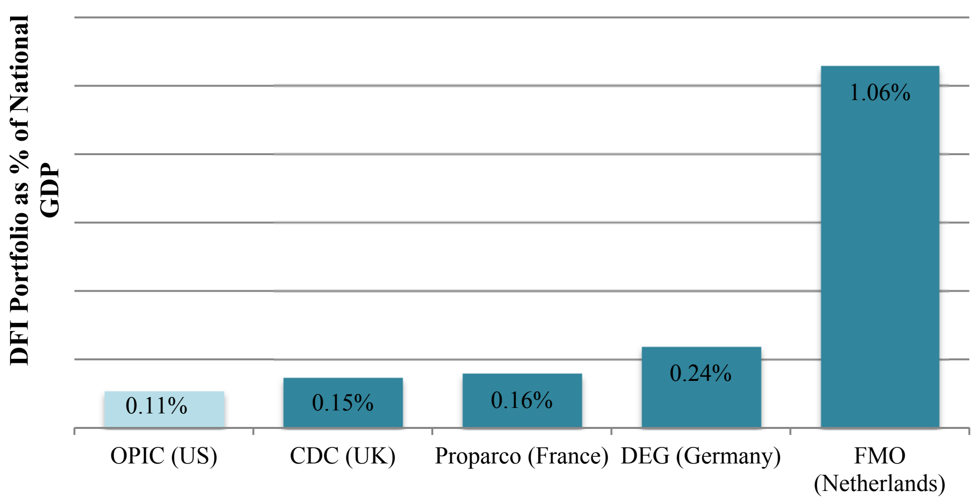
[33] To be eligible for OPIC support, a project must include the meaningful involvement of the US private sector,-including: (1) any for-profit entity that is organized *within* the US with at least 25 percent of its equity/share capital that is US-owned; (2) any for-profit entity that is organized *outside* of the US with more than 50 percent of its equity/share capital that is US-owned. The 25 percent benchmark level may be met with equity investment (ownership/contribution), long-term debt investment in the project or other U.S. contracts (e.g. construction contracts), or by combining these types of involvement in the project among one or more U.S. participants.
[34] In this instance, the US Secretary of State would need to state the importance to US development and foreign policy interests. As with other issues, the relevant congressional oversight committees should be notified in advance of any formal USDFC Board decisions.
[35] This authority is detailed in section 235(1)(a) of the Foreign Assistance Act.

approved commitments of $18 billion in 2013, which is roughly equal to OPIC's entire portfolio. However, trade finance accounted for roughly one-third of this amount ($6.5 billion), which would remain outside of the USDFC's mandate. Overall, the IFC has roughly $49 billion in total portfolio exposure.[36] Among the major bilateral DFIs, Germany (DEG) had a total portfolio of nearly $9 billion in 2013, the Netherlands (FMO) had $8.5 billion, France (Proparco) had $4.3 billion, and the UK (CDC) had $3.8 billion.[37] The figure below illustrates how each bilateral DFI's portfolio compares to their host country's GDP – ranging from 0.15 percent in the UK to over 1 percent in the Netherlands. If these same simplistic ratios were applied to the United States, then the USDFC could have a total portfolio ranging between OPIC's current statutory authority ($29 billion) and $180 billion.[38]

Figure 8 – Total DFI Portfolio as Percentage of National GDP, 2013



Source: 2013 Annual Reports, IMF WEO database, and authors' calculations

The USDFC's staffing size and administrative expenses also should reflect its operational requirements and objectives. Currently, OPIC has nearly 230 employees and an operating budget of $67 million.[39] The average OPIC employee is responsible for approximately $8 million in portfolio exposure. If OPIC's existing portfolio-to-employee

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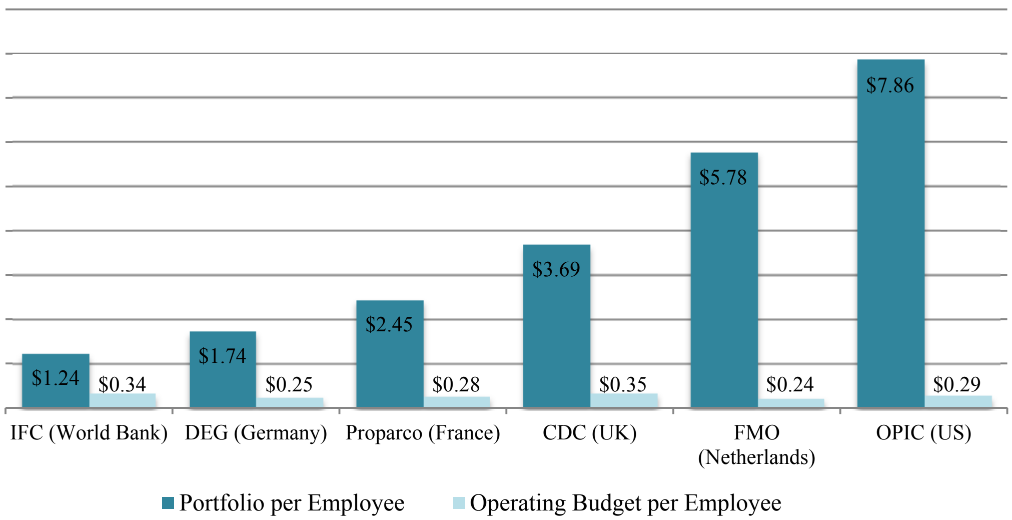
[36] International Finance Corporation (2013). *2013 Annual Report: The Power of Partnerships*.
[37] All figures have been converted to US dollars at the average exchange rate for 2013. For Germany, the Netherlands, and France, the average exchange rate was $0.783 per Euro. For the UK, the average exchange rate was $0.665 per GBP.
[38] As noted, this is a highly simplistic measure of the appropriate role for a given DFI. There are many factors that should determine the institution's actual size, such as: (1) its role within the respective government's development strategy; (2) the commercial orientation of the country; (3) political positions on the appropriate role of public sector involvement in private sector-based development approaches; (4) demand from private businesses for DFI services; (5) the suite of financial products and services available; and (6) risk management policies and procedures.
[39] This figure includes salaries, benefits, travel, contractual services, and other and general administrative expenses. Source: OPIC 2013 Annual Report.

ratio remained constant, then the USDFC would require between 370 and 2,200 employees depending on its portfolio size. This would entail an annual operating budget between $110 million and $665 million, which would be *self-financed through the partial retention of USDFC profits*.[40] By comparison, the current staffing size of peer DFIs is: the IFC (4,000), Germany (499), the Netherlands (336), France (177), and the UK (102). Notably, none of these countries are supporting national development agendas as ambitious and geographically dispersed as the US government.

Figure 9 – Portfolio Value and Operating Budget per Employee (USD Millions), 2013



Source: DFI annual reports and authors' calculations

The US Development Finance Corporation should establish a global coverage model, which could be pursued through regional hubs, country offices, and/or arrangements with other US government agencies. Other major DFIs utilize a variety of geographic coverage models. The IFC, backed by a $1.4 billion annual operating budget, has a network of 88 regional and country offices throughout the developing world. The French and German DFIs (Proparco and DEG) have been gradually expanding their overseas presence over the last two decades. Each institution has roughly a dozen offices spread throughout Africa, Latin America, and Asia. The Dutch DFI (FMO) has only one overseas office located in South Africa. The UK DFI (CDC) does not have any overseas offices, which reflects its traditional operating model as a fund of funds investor.[41] Currently, OPIC has two overseas offices (South Africa and Thailand).

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[40] These administrative budget estimates assume that OPIC's current cost structure would remain unchanged. This likely is a conservative assumption given the potential for greater efficiencies due to economies of scale.
[41] While CDC has the authority to provide project and equity finance, the majority of its portfolio corresponds to investments in private equity funds. As a result, it has not required an overseas presence to date. These requirements may change if the CDC significantly expands its operations outside of investment funds in the future.

Figure 10 – Global Country Coverage, Select DFIs

			Global Offices			
Institution	**Sub-Saharan Africa**	**Latin America**	**East Asia**	**South Asia**	**Middle East & North Africa**	**Europe & Central Asia**
OPIC	South Africa	-	-	-	-	-
FMO (Netherlands)	South Africa	-	-	-	-	-
Proparco (France)	Cameroon, Cote d'Ivoire, Kenya, Nigeria, South Africa	Brazil, Dominican Republic, Mexico	China, Thailand	India	Morocco	Turkey
CDC Group (UK)	-	-	-		-	
DEG (Germany)	Ghana, Kenya, South Africa	Brazil, Mexico, Peru	China, Indonesia, Singapore, Thailand	India	-	Turkey
IFC (World Bank)	Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Cote d'Ivoire, DRC, Ethiopia, Ghana, Guinea, Kenya, Liberia, Madagascar, Mozambique, Nigeria, Rwanda, Senegal, Sierra Leone, South Africa, South Sudan, Tanzania, Zambia	Argentina, Bolivia, Brazil, Colombia, Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Peru, Trinidad and Tobago	Cambodia, China, Indonesia, Laos, Mongolia, Myanmar, Papua New Guinea, Philippines, Thailand, Timor-Leste, Vietnam	Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka	Algeria, Egypt, Iraq, Jordan, Lebanon, Libya, Morocco, Saudi Arabia, Tunisia, United Arab Emirates, West Bank and Gaza, Yemen	Armenia, Albania, Azerbaijan, Bosnia and Herzegovina, Belarus, Bulgaria, Croatia, Georgia, Kazakhstan, Kosovo, Kyrgyz Republic, Macedonia, Moldova, Romania, Russia, Serbia/Montenegro, Tajikistan, Turkey, Ukraine, Uzbekistan

When determining coverage models, the USDFC would need to identify regions of long-term strategic importance and carefully consider budgetary requirements.[42] Ideally, the Corporation should have an adequate on-the-ground presence in strategic regions, such as Sub-Saharan Africa, Middle East and North Africa, and Latin America. Since this will require a medium- to long-term commitment of financial and human resources, the field offices should be selected carefully. Second, the Corporation should consider the benefits of having a field presence with the increased administrative costs of supporting it. For instance, the average expatriate employee can cost between $500,000 and $1 million annually in terms of salary, benefits, travel, allowances, and overhead costs.[43] Even with higher cost structures, strategically placed field staff can produce significant results. OPIC's portfolio in India grew from $75 million to $785 million during two years of in-country presence. Alternatively, the USDFC could explore utilizing a foreign-service national (FSN) model, similar to many other DFIs. This approach has several benefits, such as: (1) lower administrative costs; (2) integration with the local business and financial community; (3) nuanced market intelligence; and (4) enhanced operational continuity.

The Corporation could potentially explore collaborative field-based partnerships with other US aid agencies, such as USAID. Several DFIs actively rely on representative offices of traditional aid agencies to expand their geographic reach, conduct regular meetings with local business and government officials, and to monitor activities on the ground. For example, the German DFI (DEG) can draw upon roughly 70 global offices within the KfW Group. In this context, the USDFC could pursue targeted MoUs with USAID country missions and/or regional offices. This would likely entail a cost-sharing model, which potentially could provide cost savings compared to a dedicated

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[42] Historically, OPIC attempted to establish regional hubs. This experience should be reviewed further when determining global coverage models. We were unable to find any publicly available documentation on these efforts.

[43] This includes payments to the local US Embassy for office space and other general services, which can be quite costly when applied on a pro rata basis.

field presence model. On the other hand, it could complicate the Corporation's clear division of labor with grant-based aid agencies and potentially present a mismatch of core staffing skills and capabilities.[44]

Governance Structure

The USDFC should be an independent government agency, led by a management team appointed by the White House, and overseen by a Board of Directors that includes both government and private-sector representatives. The governance structure should reflect the Corporation's development and foreign policy objectives and model for promoting private sector-based development. In this manner, the Corporation may benefit from a Board that is co-chaired by public and private sector representatives. Alternatively, the Board could have a public sector chair and a private-sector co-chair. Beyond this, it also should include an equal number of representatives from each major political party. This would promote greater strategic continuity and help to minimize short-term political pressures. Moreover, the Board's composition should seek to ensure coverage of several core competencies, such as: international development, risk management, human resources and legal matters, global financial institutions, and specific priority sectors (e.g., power and transportation).[45]

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[44] Currently, the Development Credit Authority relies upon USAID field staff to identify, and help validate, financing opportunities. According to its management, this coverage model is a core strength of the entity's operations.

[45] OPIC's existing board of directors currently reflects these requirements to a degree. Like with several other DFIs (e.g., FMO and DEG), these requirements should be explicitly included in the Corporation's authorizing legislation. However, the sector expertise likely should not be included in the resulting legislation, which could reduce flexibility to respond to development and market priorities in the future.

Box 2 – Should the USDFC Be A Private Entity?

Several research organizations, such as the Cato Institute and the Heritage Foundation, have argued over time that OPIC should be fully privatized. For example, Riley and Schaefer (2014) contend that OPIC's operating model exposes US taxpayers to financial risks while privatizing the related benefits.[46] Moreover, they argue that public development finance is no longer required in light of significantly expanded foreign direct investment in developing economies. If the US Congress decided to explore a fully or partially privatized OPIC or US Development Finance Corporation, then the following issues and tradeoffs should be considered:

(1) *A fully privatized entity may not mirror US development and foreign policy priorities*. Due to its governance structure, OPIC is designed to advance US development and foreign policy priorities. The proposed USDFC governance structure would replicate this central function, thereby promoting private sector-based development approaches in strategic countries and sectors, such as frontline states or electricity generation in Sub-Saharan Africa. While a fully privatized OPIC or USDFC could pursue similar activities, the US government would face a number of coordination, timing, and scale challenges. In addition, a private entity will make partnerships with other US government agencies more difficult and less likely. Often partnerships with USTDA, USAID, or the US Ex-Im Bank can be necessary to close complex and difficult investment deals with high potential development impact.

(2) *The private entity may not be able to duplicate the US government's core strengths.* Unlike private entities, OPIC guarantees are backed by investment agreements with development country governments as well as the full political and economic force of the US government. While private entities may provide compensation in the event of insured actions (e.g., expropriation and/or currency inconvertibility), they cannot provide comparable ex-ante deterrents.[47] This would invariably lead to different pricing structures and diminished country coverage, which could reduce the Corporation's ability to promote US development and foreign policy objectives in strategic countries and sectors.

(3) *The US government likely would need to continue backing existing obligations*. A 1996 study of potential privatization concluded that the US government would have to offer OPIC's assets at a discount to induce any private entity to acquire its portfolio. This is due to the private sector's inability to replicate the aforementioned deterrent function or reproduce OPIC's strong recovery rate.[48] Even with this discounted price, the purchasing entity likely would still require that the US government continue backing all outstanding contractual obligations until their expiration. Under this scenario, the full financial unwinding process would take roughly 20 years.[49]

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[46] For example, see Riley, Bryan and Brett Schaefer (2014). *Time to Privatize OPIC*, Issue Brief #4224, Heritage Foundation.
[47] Moran, Ted and Fred Bergsten (2003), *Reforming OPIC for the 21st Century*, International Economic Policy Brief Number 03-5, Institute for International Economics.
[48] *Ibid.*
[49] The length of OPIC insurance coverage is available up to 20 years. For additional details, see http://www.opic.gov/what-we-offer/political-risk-insurance/extent-of-coverage.

(4) *The role for partial US financial guarantees of OPIC or USDFC bond obligations*. Several major DFIs, including the IFC and the Dutch FMO, regularly raise operating funds through global capital markets. Both of these entities have AAA credit ratings. The IFC's credit rating is backed by a prudent balance sheet as well as paid-in and callable capital from its shareholders, including the US government. Under a partial privatization scenario, similar to the Dutch FMO model, the US government would need to determine its acceptable risk exposure as well as clear oversight and regulatory mechanisms.[50] While this model has proved financially sustainable for other DFIs, the US context would present a number of significant challenges following the recent government-sponsored entity (GSE) crises.[51]

(5) *Other major DFIs present alternative models for managing the balance between public sector risks and private sector rewards.* Two DFIs (Proparco and FMO) have a mixed public-private shareholder structure.[52] For each, major financial institutions (e.g., BNP Paribas, Société Générale, and ABN Amro) are minority shareholders, along with a variety of other stakeholders. Experienced banking executives conduct day-to-day operations, with active oversight by a public sector-majority Board of Directors. The FMO has financial institution status, which means that it is subject to central bank regulations and oversight.[53] This hybrid model has sought to instill private sector management and fiduciary practices while enabling the Dutch government to influence the institution's strategic direction and priorities.

Development Impact Monitoring and Reporting

"*Since 1971, OPIC has harnessed the resources of American businesses to build hope and opportunity through investment and commerce in countries around the world. By standing behind the U.S. private sector, OPIC has both encouraged long-term stability in developing markets and made significant contributions to America's economic growth. Small, efficient, and self-sustaining, OPIC is the very essence of good government.*"

President Bill Clinton, November 15, 1996

The USDFC should establish a performance measurement system that is modeled on global best practices.[54] In this context, there is a careful balancing act between ensuring active results management with overburdening clients with excessive reporting requirements. For instance, the IFC's Development Outcome Tracking System (DOTS)

[50] The Dutch government's commitments to safeguard the FMO's liquidity and solvency were formalized in a 1991 agreement, which was amended in 1998. Articles 7 and 8 of the agreement outline the specific obligations. Source: Standard and Poor's Rating Service (2014).

[51] This relates to the financial insolvency of the US government-sponsored entities, including Freddie Mac, Freddie Mae, and Sallie Mae.

[52] For additional details on institutional shareholders, see http://www.proparco.fr/lang/en/Accueil_PROPARCO/PROPARCO/Actionnaires and

[53] Standard and Poor's Rating Service (2014). *Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.*, February 21, 2014. London.

[54] Reporting practices include performance metrics and requirements that are regularly and prominently included in organization's annual reports and/or development impact reports.

includes a total of 160 potential indicators.[55] While many of these are sector-specific measures, IFC clients can be forced to report on 20 or more indicators on an *annual basis*.[56] In turn, these indicators are used to generate development outcome ratings for every project, which are aggregated across the IFC's entire portfolio and reported publicly. On the other hand, several DFIs, such as France's Proparco, seemingly do not monitor sponsored-investments after the project approval stage.[57] Appendix III includes additional details on respective DFIs' result measurement frameworks.

While OPIC currently utilizes a Development Impact Matrix to evaluate and monitor both prospective and approved investment projects, the information is not publicly reported. This matrix includes five broad categories that measure a project's developmental impact: (1) job creation and human capacity building; (2) demonstration effects; (3) host country impact; (4) environmental and community benefits; and (5) developmental reach. Based on these factors, OPIC assigns a score to each proposed project on a scale of 1 to 100. A project must score between 25 and 60 points to be considered "developmental" and eligible for OPIC support. A score of 60 points or greater is considered "highly developmental". OPIC does not publish these project scores, either in an aggregated or disaggregated format on its website, in its annual report, or annual policy report.

The USDFC performance measurement system would expand upon OPIC's existing approach by measuring, considering, and reporting on the 'additionality' of its operations. This requires both ensuring that the institution does not compete with private sources of investment capital and maintains appropriate financial performance within its portfolio. These 'additionality' measures should draw upon the efforts and lessons learned from other major DFIs, including both financial and non-financial filters. For example, the UK's CDC tracks a range of related financial measures across its investment fund portfolio, such as: (1) support for first-time fund managers (total number); (2) support at first financial close (percentage of CDC-backed funds); and (3) third-party capital (percentage of total fund size).[58] In addition, the Dutch and German DFIs track

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[55] For additional details, see IFC DOTS Indicator Framework.
[56] The IFC's template examples cite the following numbers of development indicators for each sector (in descending order): (1) financial services (56 indicators); (2) oil, gas, and chemicals (23 indicators); (3) education (20 indicators); (4) agriculture and forestry (26 indicators); (5) health (18 indicators); (6) private equity and investment funds (13 indicators); (7) manufacturing and services (12 indicators); (8) information and communication technology (11 indicators); (9) subnational finance (8 indicators); and (10) infrastructure (5-7 indicators, depending on sub-sector).
[57] Proparco's last three annual reports (2011-2013) note that projected development impact data is collected as part of the due diligence and project approval process. There is no mention to regular monitoring and reporting on actual project performance. In addition, the authors were unable to find any other form of Proparco documentation that reference actual project performance.
[58] Commonwealth Development Corporation (2013). *2013 Annual Review*. Available at http://www.cdcgroup.com/Documents/Annual%20Reviews/CDC_AnnualReview_2013.pdf

and report on a number of non-financial metrics, such as the provision of advisory services and improvements to firms' social and environmental policies.[59]

At a minimum, the USDFC should publicly report how its involvement is instrumental to a given project's completion before approving any support. There are several options for implementing this requirement. First, the Corporation could note that the investor had provided credible documentation that: (1) private financing was not available on financially viable terms, with the required loan tenor, and/or in the required form (e.g., debt or equity); and (2) USDFC support would unlock material levels of private financing over the short- to medium-term. This information would also detail the USDFC's non-financial 'additionality' as appropriate. In practical terms, this information would be incorporated into the project description summary, which would be disclosed publicly.[60] The project approval documentation, which would be considered by the USDFC's Board of Directors, would include more detailed information. Alternatively, the Corporation could produce or source analysis on the availability of private financing in specific countries and/or sectors. By illustration, it would utilize analyses on the availability and constraints for power sector financing in African frontier markets. This information could be incorporated into the institution's formal pre-investment screening process. While this option has several advantages, human and financial resource requirements would need to be considered carefully.

Moreover, the USDFC would collect and publicly report on a series of institutional efficiency and performance metrics. Several examples include: (1) financial performance (e.g., self-sustaining operating structure, investment fund performance, and non-performing loan ratios); (2) average investment transaction review time;[61] and (3) operating budget ratios (e.g., portfolio per OPIC employee and salaries/benefits versus overhead expenses).

The USDFC would regularly provide updates, with disaggregated information, to the relevant congressional oversight committees. OPIC and other US programs regularly provide operational information to Congress on an annual basis.[62] For OPIC, this typically includes: (1) an annual report; (2) an annual policy report; and (3) a

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[59] For instance, both institutions actively track the absolute and relative number of projects in which they provide advisory services to the firm, including ways to improve social and environmental safeguard policies and practices.

[60] Currently, OPIC typically includes the following information fields in its project description summaries: (1) host country; (2) name of borrower(s); (3) project description; (4) proposed OPIC loan; (5) total project costs; (6) US sponsor; (7) foreign sponsors; (8) US economic impact; (9) development effects; (10) environment; (11) workers' rights; and (12) human rights. For examples, see http://www.opic.gov/opic-action/all-project-descriptions.

[61] This would include the time required for each stage of transaction process. This information would be reported at the project and portfolio level.

[62] Although, Congress can request formal hearings and/or informal briefings on an ad hoc basis, as needed.

congressional hearing by the relevant committees. The Corporation would continue the same approach. However, the substantive content would be expanded to include the more detailed performance system metrics, including financial risk management measures, and post-investment evaluations of development impact.

Across its operations, the USDFC should have a presumption of public disclosure and have a high bar for withholding information due to commercial confidentiality concerns. At a minimum, this would include all project description summaries[63] and development impact matrix scores (at the time of project approval). Among other reasons, this would seek to address occasional critiques of OPIC's involvement in certain sectors, such as hospitality projects. The Corporation also should establish a web-based tool that can process project-level queries by region, country, and sector. This should include the following information fields: (1) project sponsor; (2) project name; (3) project description; (4) USDFC commitment amount; (5) total project size; and (6) type of instrument (e.g., loan, insurance, advisory service). Moreover, the Corporation should publish project-level development performance data on an annual basis.[64]

Box 3 – Why Development Finance ≠ Corporate Welfare

Some opponents of the Overseas Private Investment Corporation (OPIC), and other development finance institutions, contend that it provides public welfare to large corporate interests. In this view, these activities result in the privatization of profits while placing financial risk or losses upon US taxpayers. This argument is often misplaced for several key reasons. First, US investors pay risk-based fees and interest rates on OPIC insurance policies and loans. In this manner, OPIC's pricing, portfolio management, and reserve policies are designed to minimize the probability of financial losses, as illustrated by its nearly 40 consecutive years of profitability. Second, OPIC must demonstrate that its involvement in private transactions is 'additional', either in terms of loan tenor, country coverage, or sector coverage. Put differently, it must convincingly argue that its support is essential for crowding in other financiers and allowing the investment to move forward. OPIC's Board of Directors considers these 'additionality' requirements before approving any financial commitments. While these practices instill institutionalized processes, they should be further strengthened going forward, as noted above in the Development Impact Monitoring and Reporting section of this paper.

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[63] Currently, OPIC has a stated policy of publishing project description summaries. However, it does not meet this organizational requirement.

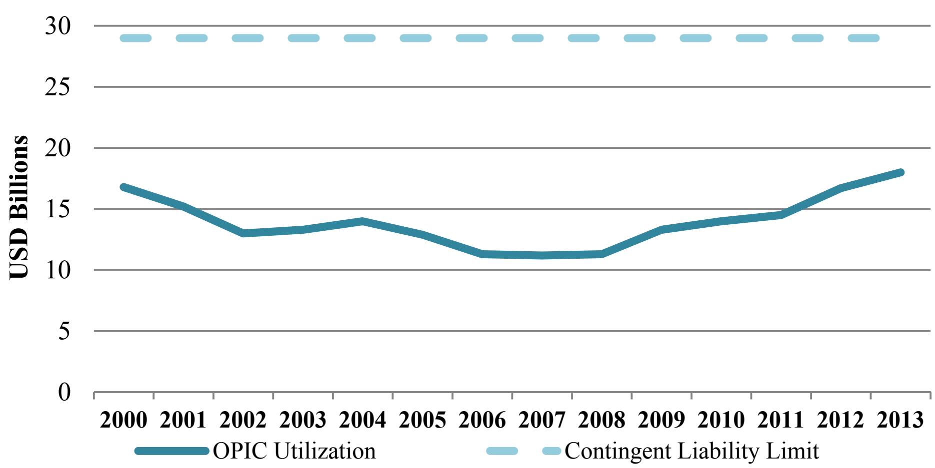
[64] As noted above, some information would be withheld for commercial confidentiality reasons. However, the Corporation would seek to provide the maximum amount of information within its legally-mandated requirements.

Capital Structure

The USDFC's capital structure should reflect its desired scale, comparative advantage, complementarity with private financiers, and role within the US government's development and foreign policy toolkit. Importantly, the structure should only represent the Corporation's potential maximum portfolio size. The actual size, as measured by total contingent liabilities, must reflect the institution's ability to support individual transactions with strong development impact, prudently manage financial risks, and consistently demonstrate strong 'additionality' vis-à-vis private sector alternatives. There are several potential capital structure options, such as:

- ✓ Status Quo Structure: The USDFC would rely upon OPIC's existing maximum contingent liability limit of $29 billion.[65] This limit has not been changed since 1998, when it was increased from $23 billion.[66] At September 30, 2013, OPIC's insurance and finance programs have collectively utilized $18 billion. This would leave roughly $11 billion in headroom for financing, insurance, and direct investment activities. Future adjustments to the Corporation's contingent liability limit would be considered by the US Congress on an ad hoc basis. Advisory services and technical assistance activities would be financed out of retained earnings.

Figure 11 – OPIC Contingent Liability Limit and Utilization Rate (Insurance and Finance)



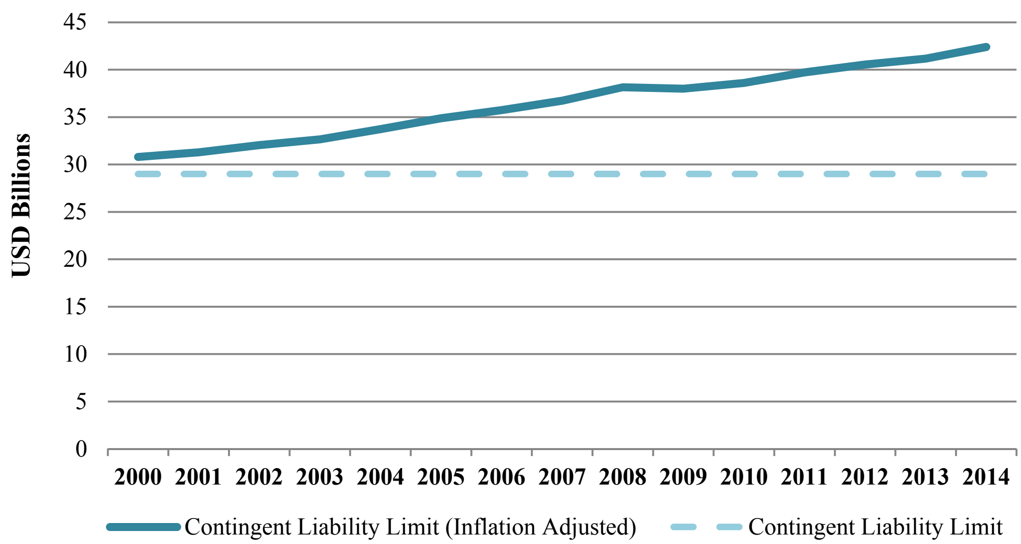
Source: OPIC annual reports (various years)

[65] This limit is outlined in section 235(a)(1) of the Foreign Assistance Act of 1961. The relevant language was last revised through Section 581(a) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1998 (Public Law 105–118).

[66] Interestingly, $21 billion in 1998 would be worth greater than $30 billion in inflation-adjusted 2014 dollars.

- ✓ Revised OPIC Contingent Liability Limit: The USDFC would rely upon an updated version of OPIC's existing contingent liability. This limit would be adjusted upwards to roughly $42 billion, thereby converting the current exposure limit from 1998 dollars to 2014 dollars.[67] Going forward, the maximum contingent liability limit would be inflation-adjusted, which would prevent the erosion of the USDFC's potential portfolio size in real terms. The Corporation would likely require many years before approaching this limit, even following significant staff expansion. Nonetheless, this greater level of financial headroom would provide the Corporation with adequate flexibility to execute scaled private sector-based development approaches while simultaneously ensuring proper portfolio risk management and oversight.

Figure 12 – OPIC Contingent Liability Limit, Inflation-Adjusted Scenario



E. Implementation Roadmap

The implementation roadmap for the proposed US Development Finance Corporation will require a series of concerted bipartisan actions by the US executive and legislative branches. While these steps could and should be pursued by the current administration, we focus primarily on the 2016 election timetable. This reflects the longer-term requirements for establishing broad-based, bipartisan support for a full-service and self-sustained institution that consolidates existing US government tools and addresses any remaining gaps. Moreover, we recognize that further refinements to this

[67] This figure is calculated using the US Bureau of Labor Statistics *CPI Calculator* tool, which is available at http://data.bls.gov/cgi-bin/cpicalc.pl. The adjustment could be based off of alternative methodologies as well, such as the cost of capital.

proposal, along with additional analysis, will likely be required in the interim. Looking forward, however, the roadmap would include the following major steps:

(1) **The US President should table a proposal to establish a consolidated USDFC, along with template legislation.** For the next president, this should take place within the first 100 days in office. Such action would instill an appropriate level of political commitment and help to build momentum within Congress. This proposal would be further fleshed out, and amended as appropriate, in close partnership with Congress.

(2) **The US Congress should pass legislation that will establish a USDFC to function as the premier development agency focused on private sector-based approaches**. This legislation could be passed as a stand-alone act or as an amendment to the Foreign Assistance Act of 1961. In both instances, bold leadership from the House Foreign Affairs and Senate Foreign Relations Committees will be essential. Regardless of the specific legislative vehicle, it should address the following minimum components: (a) products, services, and tools; (b) size, scale, and staffing requirements; (c) governance structures and oversight functions; (d) performance metrics (including stringent 'additionality' requirements); and (e) capital structure models.

(3) **Businesses, investors, and development advocates should establish a coalition focused on increasing the strategic role of development finance and establishing an appropriately ambitious USDFC.** These efforts should focus on transitioning US development policy away from a grant-based engagement model in most emerging market economies towards a model primarily focused on private sector-based development approaches.

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Appendix I

Development Finance Institutions, Operational Comparison (2013)

Institution	Commitments (USD bln)	Total Portfolio (USD bln)	GDP Size (USD Trillions)	Country Coverage	Administrative Expenses		Portfolio Value per Employee (USD mlns)	Net Profits (USD mln)	Profits Per Employee (USD mln)
					Full-time Employees	Operating Budget (USD mln)			
OPIC	$3.9	$18.0	$16.8	102	229	$67.38	$7.86	$162	$0.71
FMO (Netherlands)	$1.9	$8.5	$0.8	-	336	$79.18	$5.78	$133	$0.40
Proparco (France)	$1.1	$4.3	$2.7	70	177	$49.17	$2.45	$44	$0.25
CDC Group (UK)	$0.6	$3.8	$2.5	Africa, South Asia	102	$35.34	$3.69	$176	$1.72
DEG (Germany)	$2.0	$8.7	$3.6	49	499	$126.05	$1.74	$105	$0.21
IFC	$18.3	$49.6	-	113	4015	$1,369.00	$1.24	$1,350	$0.34

*For the European DFIs, figures were converted from euros and British pound sterling to US dollars at the 2013 average exchange rates

Appendix II

Development Finance Institution Comparison, Governance Structures

		Board of Directors			Supervisory Board / Board of Governors			
	Management Team	**Membership**	**Mandate**	**Committees**	**Membership**	**Mandate**	**Committees**	**Shareholders**
OPIC	Appointed by the White House	Fifteen members, with eight from the US government and seven from the private sector. All members are appointed by the US President and confirmed by the US Senate. Government members include OPIC's CEO, USAID Administrator, US Trade Representative, and senior officials from the US Treasury, State Department, and Labor Department.	Holds four formal meetings per year, provides policy guidance, and approves all major insurance, project finance and investment fund projects. Votes require simple majority and a quorum of at least 8 directors.	(1) Executive; (2) Audit; and (3) Other committees as required	N/A	N/A	N/A	Independent US government agency
FMO	Appointed by the FMO's Supervisory Board.	FMO's Chief Executive Officer (CEO), Chief Risk and Finance Officer CRFO), and Chief Investment Officer (CIO).	Responsible for day-to-day operations, with Supervisory Board oversight and accountability.	N/A	Six members with specialized expertise in: (1) development cooperation; (2) human resources and legal matters; (3) accounting and risk management; (4) global, regional, and national development banks; (5) financial service industry. New members are appointed by the Supervisory Board and approved through a general meeting of FMO shareholders.	Oversight of the FMO's: (1) Board of Directors; (2) operating budget; (3) financial position; (4) development performance; (5) risk management; (6) personnel and HR policies; and (7) corporate compliance.	(1) Audit and Risk; and (2) Selection, Appointment, and Remuneration	51% stake held by the Dutch government; 42% by large Dutch banks; and 7% by employers' associations, trade unions and 100 Dutch companies and individual investors.
Proparco	Appointed by Proparco's Board of Directors	Sixteen members, including ten legal entities selected from among the shareholders.	Holds four formal meetings per year, approves loan and guarantee pricing policy, business plans, strategic investment projects, and any other major transactions.	Investment Advisory Committee (13-16 members, with at least one-third from Board). It meets monthly to review proposed transaction (under €30 million), which do not require Board approval.	N/A	N/A	N/A	57% stake held by Agence française de développement; 26% by large French banks; 13% by international financial organization; 3% by French businesses; and 1% by private foundations.
CDC	Appointed by CDC's Board of Directors	Six members, including a non-executive chairman, CDC's Chief Executive Officer (CEO), and four non-executive directors from the private sector and academic institutions. One-third of the members retire each year, but can be re-appointed.	Typically holds six formal meetings per year, determines CDC's strategy and direction, monitors business results and risk exposure,	(1) Audit, Compliance, and Risk; (2) Development; (3) Nominations; and (4) Remuneration.	N/A	N/A	N/A	Public limited company owned by the UK Department for International Development
DEG	Appointed by KfW	Three executive members, whose responsibilities are divided according to regions, sectors, and DEG business operations.	Day-to-day operations of the organization	N/A	Between 8 and 12 members appointed by KfW, including one each from the Ministry for Economic Cooperation and Development, the Ministry of Finance, the Foreign Office, and the Ministry of Economic Affairs and Energy. The Board includes two KfW representatives (the sole shareholder). The Board also includes between 2 and 4 members from the private sector and civil society.	Responsible for advising and monitoring the Management Board with respect to the management of the company.	(1) Executive; and (2) Audit	Legally independent, wholly-owned subsidiary of KfW Bankengruppe
IFC	President appointed by Board of Directors, who may in turn appoint and dismiss IFC management team members	Twenty-five executive directors, plus the World Bank Group President.	Responsible for considering and approving all IFC investments and policies, in addition to representing the Board of Governors on matters concerning: the audit of accounts, approval of administrative budgets, and annual reports on operations.	(1) Audit; (2) Budget; (3) Development Effectiveness; (4) Governance and Executive Directors' Administrative Matters; and (5) Human Resources.	All IFC member countries (currently 184 countries)	All corporate powers are vested in the Board of Governors unless delegated to the Board of Directors. Certain powers can only be executed by the IFC's Governors, such as: admitting new members, increasing/decreasing the IFC's capital stock, suspending members, or declaring dividends.	N/A	184 members with paid-in capital. The largest shareholders are: the United States (24 percent voting share); Japan (6 percent); and Germany, France, and the UK (5 percent each).

Appendix III

Development Finance Institutions, Development Impact Methodology

	OPIC	FMO	CDC	DEG	Proparco	IFC
PORTFOLIO-WIDE INDICATORS						
Number of New Jobs Created	√	-	-	√	-	√
Number of Employees	-	√	√	√	-	√
Average Workers Per Firm	-	-	√	-	-	-
Contribution to Government Revenues/1	√	√	√	√	-	√
Local Procurement	√	-	-	-	-	√
Net Foreign Exchange Impact	√	-	-	√	-	-
% of Portfolio in Priority Sectors/2	Select sectors	-	√	-	-	√
% of Portfolio in Target Geographies	√	-	√	-	√	√
SECTOR-WIDE INDICATORS						
Number of Employees (all sectors)	-	√	√	√	-	√
Average Workers Per Firm	-	-	√	-	-	
Contribution to Government Revenues	√	√	√	√	-	√
Net Value-Added (productive sectors)	-	-	-	√	-	-
Microfinance Loans (finance sector)						
Volume	√	√	-	-	-	√
Total Number	√	√	-	-	-	√
SME Loans (finance sector)						
Volume	√	√	√	√	-	√
Total Number	√	√	√	√	-	√
Private Equity Funds						
Number of Investees	-	√	√	-	-	-
Amounted Invested	-	√	√	-	-	-
Number of First-Time Fund Managers	-	-	√	-	-	-
Support at First-Close	-	-	√	-	-	-
Third Party Capital (% of Total Fund)	-	-	√	-	-	-
Number of New Electricity Connections	-	√	-	-	-	-
New Electricity Generation	√	-	-	√	√	-
Power Generation - Existing and New	-	-	-	-	-	√
Power Distribution - Existing and New	-	-	-	-	-	√
Greenhouse Gas Emissions Avoided/3	√	√	-	√	√	-
Water Distribution - Existing and New	-	-	-	-	-	√
Phone Connections - Existing and New	-	-	-	-	-	√
Patients Reached	-	-	-	-	-	√
Students Reached	-	-	-	-	-	√
Farmers Reached	-	-	-	-	-	√
DATA COLLECTION (POST APPROVAL)	Annual voluntary reporting, on-site audits	Annual voluntary reporting	Annual voluntary reporting	Bi-annual reporting	N/A	Annual voluntary reporting

EX-POST PROJECT EVALUATION FRAMEWORK	OPIC	FMO	CDC	DEG	Proparco	IFC
Evaluation Coverage						
Time Period	Annual until end-point	5 years after project approval	Investment fund's mid-point and end-point	Every 2 years after approval	N/A	Variable
Sample Rate	100% (10% with site visits)	50%	100%	100%	-	Ad hoc
Development Outcomes						
Commercial Viability/Success	√	√	√	√	-	√
Job Creation	√	√	√	√	-	√
Government Revenues Impact	√	√	√	√	-	√
National Income Impact	-	-	-	√	-	√
Local Procurement	√	-	-	-	-	√
Net Currency Impact	√	-	-	√	-	-
Gender Impact	√	-	-	√	-	√
Training Impact	√	-	-	√	-	√
Technology and Know-How Transfer	√	-	-	√	-	√
Infrastructure Quality Impact	√	-	-	√	-	√
Environment and Social Outcomes	√	√	√	√	-	√
Investment Outcomes						
Return on Credit Facilities	√	√	-	√	-	√
Return on Equity Investments	*N/A*	√	√	√	-	√
Other Factors						
Additionality	-	√	√	√	-	-
Catalytic Role (co-financing)	-	√	√	√	-	-
Value-Added	-	Corporate goverance, safeguards	Fund investment firm strategy, safeguards, human capacity	Corporate goverance, safeguards, advisory services	-	Advisory services, policy change, corporate governance, safeguards
Evaluation Rating Entity	Investment Policy staff	Evaluation team staff, with transaction team and front office staff input	Board Development Committee	Corporate Stategy and Development Policy staff	-	Independent Evaluation Group

1/ Calculated as tax payments minus subsidies received.

2/ CDC defines these priority sectors as: infrastructure, financial institutions, manufacturing, construction, agribusiness, health, and education.

3/ Calculated as project emissions compared to most likely alternative power source available.

NOTE - There may be differences between the examined institutions' own evaluation functions and their independent evaluation functions that are not fully captured in this summary table. It reflects the authors' best assessment based upon publicly-available documents.