Coordinating for Impact: Ideas to Advance DFC's Interagency Engagement

Clemence Landers, Sarah Rose, and Jocilyn Estes

Abstract

The ability of the US International Development Finance Corporation (DFC) to fulfill its promise of becoming a full-fledged, impact-focused development finance institution depends in part on how it leverages the expertise and resources of other US government development agencies. In the US federal government, however, interagency coordination can be a tough sell. This paper explores the ways in which DFC can successfully coordinate with other agencies both in Washington and in the field to realize the new agency's development mandate. It briefly analyzes DFC's chief coordination structures and tools, noting areas where agencies might establish staffing and communications linkages to promote effective coordination. It also identifies opportunities for functional collaboration at the transaction level, including in identifying and bringing viable DFC projects to close and monitoring their development impact. Finally, this paper highlights how other agencies might adjust some of their own programming to complement DFC's work. From this analysis, the authors propose a set of targeted recommendations aimed at making the DFC's coordination efforts more successful.

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Introduction

The US International Development Finance Corporation (DFC)—which opened its doors at the end of 2019—has been widely heralded as a major win for US development policy. Over the last two decades, private capital has become an increasingly prominent source of financing for development. Seeking to increase and leverage those flows, policymakers have been looking to Development Finance Institutions (DFIs) to help facilitate investment in developing countries, guiding them toward projects with high social and economic returns. Against this backdrop, it had become clear within the United States that the government's main development finance agency, the Overseas Private Investment Corporation (OPIC), was hamstrung by outdated authorities.[1] In response, in 2018, Congress passed and President Trump signed the Better Utilization of Investments Leading to Development (BUILD) Act into law—setting in motion a transition to establish DFC as a more modern, full-service US development finance institution designed with a sharper focus on achieving development impact.

The ability of DFC to fulfill the promise of becoming a full-fledged, development impact focused DFI depends in part on how it leverages the expertise and resources of other US government development agencies. The United States Agency for International Development (USAID) can be a powerful collaborator on generating deals and building monitoring and evaluation systems; the Millennium Challenge Corporation (MCC) can provide best practices on impact analysis, and, in some cases, pave the way for DFC projects through blended finance collaboration or spurring regulatory reform; the US Treasury can help promote collaboration with the private sector arms of the multilateral development banks (MDBs); and the State Department can help DFC get closer to its clients by leveraging the global footprint of US Embassies. The need for interagency coordination is also enshrined in the BUILD Act, which includes reporting requirements and other provisions designed to promote coordination.

In the US federal government, however, interagency coordination can be a tough sell. Individual agencies tend to see coordination as burdensome, slowing things down, or presenting opportunities for roadblocks. Collaboration can be undermined by interagency sparring over resources and recognition, perhaps even more so with a White House keen to cut foreign aid budgets. But even as DFC is focused on ramping up operations and trying to quickly demonstrate its value, it's critical that coordination remain a first order priority. Coordination will require dedicated, proactive effort. Corralling the interagency toward a common goal requires high-level administration officials to provide political direction and agency leadership to champion coordination and provide incentives for working-level staff to make it happen.

[1] As Leo and Moss (2015) point out, and as the paper discusses in the next section, under OPIC "US development finance efforts [had] 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" (p.1).

Before DFC opened its doors, OPIC and USAID leadership sent a joint report to Congress outlining out how the two agencies would work together (the "coordination report").[2] The report lays out institutional, programmatic and budget linkages between the two agencies and highlights current areas of collaboration (see Box 1). But since the report focuses only on the DFC-USAID relationship, DFC will need to do more to map out the broader coordination agenda.

Box 1. Key Elements of the Joint Coordination Report

The joint USAID-DFC coordination report to Congress lays out areas and initiatives the agencies plan to take to institutionalize coordination:

- Outlines a vision for the Chief Development Officer (CDO) role which includes leading on interagency coordination;
- Defines components of the Office of Development Policy, including a Development-Coordination Unit;
- Sets a vision for mission staff to support DFC transactions and undertake complementary programming;
- Introduces the Development Finance Coordination Group (DFCG), an interagency body that aims to advise and promote coordination around DFC policies, projects, and development finance best practices;
- Highlights the Office of Strategic Initiatives as a major hub of coordination on interagency initiatives such as W-GDP, Power Africa, and Prosper Africa.

This paper explores the ways in which DFC can successfully coordinate with other US development agencies. It briefly analyzes the proposed structures, tools, and opportunities to leverage interagency resources, highlighting potential challenges and pinpointing opportunities for success. It concludes with a set of targeted recommendations that can help make DFC's coordination efforts more successful. The primary focus of this paper is coordination in pursuit of realizing DFC's development mandate. It less directly explores coordination around geostrategic or foreign policy objectives, wherein the White House or State Department seek to leverage DFC to advance these goals. This, too, is important and will be the subject of future analysis.

Background: From OPIC to DFC

OPIC, which was established in 1971, provided over $200 billion in loans, guarantees and insurance products over its nearly 50 years in operation.[3] But it wasn't keeping pace with its peer development finance institutes around the world, even as the international community

[2] The coordination report fulfilled a legislative reporting requirement set out in the BUILD Act. US International Development Finance Corporation. 2019. "USAID and DFC Coordination Report." https://www.dfc.gov/sites/default/files/2019-08/CoordinationReport_Shelby_7_31_19.pdf

[3] Akhtar, Shayerah Ilias. 2016. *The Overseas Private Investment Corporation: Background and Legislative Issues*. Washington, DC: Congressional Research Service. https://crsreports.congress.gov/product/pdf/RS/98-567.

increasingly recognized the key role development finance would play in financing global development objectives.[4]

OPIC's small size and limited financing instruments were key factors that constrained its reach and impact. In response, the BUILD Act more than doubled OPIC's $29 billion portfolio cap, giving DFC $60 billion in exposure headroom.[5] The bill also added new equity authority and established a grant window to conduct feasibility studies and support technical assistance. And by merging USAID's Development Credit Authority (DCA) into the new DFC, the BUILD Act consolidated key USG private sector development finance efforts under one roof. Furthermore, replacing the "US nexus" requirement—a rule that said OPIC projects must have a meaningful connection to the US private sector—with a softer "preference" for US firms enables additional flexibility to finance a wider universe of deals where US companies are not competing.[6]

Other big questions occasionally leveled at OPIC included whether it was too insulated from the rest of the US government development and foreign policy apparatus and whether it was, as a DFI, sufficiently focused on development impact.[7] In the last five years of its operation, over 40 percent of OPIC's exposure for single country programs was in upper middle-income countries (UMICs) or high-income countries (HICs). This expansion into higher income markets was partly driven by Obama-era presidential initiatives focused on climate finance and the energy sector.[8] While this reflected a shift toward greater OPIC integration into White House-led interagency processes, these initiatives also shifted the agency into particular (sometimes higher income) focus countries or sectors requiring larger markets.[9]

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[4] Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries. 2015. *From Billions to Trillions: Transforming Development Finance Post-2015 Financing for Development: Multilateral Development Finance.* http://pubdocs.worldbank.org/en/622841485963735448/DC2015-0002-E-FinancingforDevelopment.pdf;

[5] In recent years OPIC's portfolio size relative to national GDP lagged behind its peer institutions. While it will take time for DFC to scale up its portfolio, a $60 billion cap brings the institution into a different league. For example, the IFC—the largest global development institution focused exclusively on the private sector—has had an average of $69 billion in exposure since FY2013.

[6] Overseas Private Investment Corporation. 2017. "OPIC Fact Sheet." https://www.dfc.gov/sites/default/files/2019-08/us-nexus-fact-sheet-2017.pdf.

[7] Leo, Benjamin, Todd Moss, and Beth Schwanke. 2013. *OPIC Unleashed: Strengthening US Tools to Promote Private-Sector Development Overseas.* Washington, DC: Center for Global Development. https://www.cgdev.org/sites/default/files/OPIC-Unleashed-final.pdf.

[8] Landers, Clemence. 2019. "USDFC Monitor: Inside the Last Five Years of OPIC's Portfolio - Five Lessons for the DFC." https://www.cgdev.org/blog/inside-last-five-years-opics-portfolio-five-lessons-dfc.

[9] Under the Obama administration, OPIC invested over $1.7 billion in Power Africa projects and more than doubled its share of agriculture-related commitments in response to Feed the Future. Leo, Benjamin, Todd Moss. 2016. *Inside the Portfolio of the Overseas Private Investment Corporation.* Washington, DC: Center for Global Development. https://www.cgdev.org/sites/default/files/CGD-Policy-Paper-81-Leo-Moss-Inside-the-OPIC-Portfolio.pdf.; Littlefield, Elizabeth. 2017. *Overseas Private Investment Corporation Cabinet Exit Memo.* Washington, DC: Overseas Private Investment Corporation. https://obamawhitehouse.archives.gov/sites/whitehouse.gov/files/documents/OPIC%20Exit%20Memo.pdf.

Box 2. What is the Development Credit Authority (DCA)?

DCA was established in 1998 when Congress gave USAID authority for development-focused credit assistance. Its mission was to help fill financing gaps for small businesses in emerging markets by establishing risk-sharing agreements with local financial institutions to on-lend to local businesses.[a] DCA's partial credit guarantees were intended to help encourage private lenders to provide new financing to underserved borrowers in developing countries.[b] These guarantees were generally paired with technical assistance to help local financial institutions manage risks, perform due diligence and cash-flow research. DCA was a relatively small office within USAID's Bureau for Economic Growth, Education, and Environment (E3) with around 30 total personnel. But from 1999 to 2018, DCA issued over 550 guarantees, committing more than $5 billion in 80 countries.[c] While under USAID, the vast majority—70 percent—of DCA's activity by volume was in loan portfolio guarantees. It also offered loan guarantees, portable guarantees, and bond guarantees. DCA's loan activities have been historically concentrated in Africa and Latin America, and in the agricultural, commerce, and energy sectors.[d] The new DFC combines the DCA with OPIC's Small and Medium Enterprise Finance group to create the DFC Office of Development Credit. ODC will work on projects that require lower financing levels than major infrastructure or energy investments and are seen to have more targeted development potential.

a. DCA was also responsible for administering the USG's Sovereign Loan Guarantee program which will not be moved to DFC.
b. US Agency for International Development. 2019. "Development Credit Authority (DCA)." https://www.usaid.gov/news-information/fact-sheets/development-credit-authority-dca_old
c. US Agency for International Development. 2018. "USAID Development Credit Authority Guarantee Data: Utilization and Claims." https://www.usaid.gov/dca/overview-2018. https://www.usaid.gov/developer/dca-utilizations-and-claims. Accessed January 27, 2020; US Agency for International Development. 2018. "DCA Overview." https://www.usaid.gov/dca/overview-2018.
d. US Agency for International Development. 2018. "USAID Development Credit Authority Guarantee. Data: Loan Transactions." https://www.usaid.gov/developer/dca-loan-transactions. Accessed January 27, 2020.

In establishing DFC, lawmakers reinvigorated the institution's development mandate while also underscoring the need for the new agency to be more integrated with the United States' other development tools. The BUILD Act requires the new agency to "prioritize" investments in low-income countries (LICs) and lower-middle income countries (LMICs) and focus more on achieving development impact through its transactions. While DFC can still work in UMICs, it is "restricted" in the type of investments it can support.[10] DFC has committed to directing at least 60 percent of its investments to LICs and LMICs (though the agency has not specified whether it will measure against that target using the dollar amount

[10] In addition, in a significant loophole to DFC's development mandate, the European Energy Security and Diversification Act of 2019 allows DFC to support investments in *high-income* European countries if the projects preempt or counter efforts by Russia or China to secure stakes in key European industries with national security implications (Moss, Todd and Erin Collinson. 2020. "Russia, DFC, and the Terrible, Horrible, No Good, Very Bad Idea Buried in the Spending Law." https://www.cgdev.org/blog/russia-dfc-and-terrible-horrible-no-good-very-bad-idea-buried-spending-law).

of financing or number of projects—and that matters quite a bit).[11] While the BUILD Act's drafters understood this wouldn't make an easy road for the new DFC—LICs and LMICs are harder markets for the private sector with a more limited number of often riskier deals—developing countries are also where de-risking private capital is most needed and development gains are likely to be the greatest. To help DFC achieve its development mandate in lower income countries, the BUILD Act specifically emphasizes coordination with other USG development agencies to leverage their resources and maximize impact.

Key Changes Outlined in the BUILD Act

	OPIC	DFC
Portfolio Cap	$29 billion	$60 billion
Instruments	Direct loans, loan guarantees, insurance	Direct loans, loan guarantees, insurance, equity
Nexus Requirement	Projects required to have a substantial US connection	Preference for participation of US businesses but not a requirement
Income Restriction	Projects restricted to 160 developing or post-conflict countries (no explicit income restriction)	Prioritize investments in low-income, low-middle income countries
Authorization Period	Annual in theory (but irregular in practice)[12]	Seven years

Coordination Leadership and Staffing at DFC

Chief Development Officer

New to DFC is the role of the Chief Development Officer (CDO), described in the BUILD Act as the person responsible for ensuring the agency meets its strengthened development mandate. Part of fulfilling this role is acting across the agency as DFC's coordinator-in-chief. Appointed jointly by the DFC CEO and the USAID administrator (with DFC board approval), coordination is built into the position's DNA. The CDO's chief coordination-related functions include:

- coordinating DFC's policies, interventions, and private sector relationship building efforts with other US development agencies;
- overseeing transactions and programs that are co-designed with USAID (or other agencies);
- and authorizing transfers of funds to and from other agencies in order to bring their human or other resources to bear in support of DFC's activities.

[11] Saldinger, Adva. 2020. "Meet Andy Herscowitz, DFC's first chief development officer." https://www.devex.com/news/meet-andy-herscowitz-dfc-s-first-chief-development-officer-96942.

[12] For years the OPIC relied on authorizations in appropriations bills which sometimes that meant much shorter stints due to stopgap continuing resolutions.

But while the BUILD Act gives the CDO many implied powers, it's a new position, and its authority within the DFC's organizational architecture is not fully fleshed out. Because DFC is built on OPIC's foundation, the functions the CDO is tasked with overseeing and implementing are, in large part, already being undertaken by existing units, over which the new CDO position has no pre-existing or formalized authority. Limited clarity around how the CDO will, in practice, exercise the responsibilities outlined for the position in the BUILD Act could constrain how effectively the CDO is able to carry out its mandate with respect to coordination—as well as its other development-focused duties.

Development-related coordination duties currently reside in three separate DFC offices. The Office of Development Policy (ODP), carried over from OPIC (then the Office of Investment Policy), operationalizes DFC's focus on development impact. It also houses a dedicated unit, the Development-Coordination Unit (DCU), for managing coordination with other US development agencies. The other parts of ODP—the unit managing monitoring and evaluation, the unit designing technical assistance programs, and the unit implementing the "Impact Quotient" tool that estimates the development impact of proposed transactions—are also building coordination into their work so they can tap into relevant skills, expertise, and data that exist across agencies. Furthermore, it is expected that long-term detailees from State and USAID will fill several ODP positions—a concrete way to execute coordination.

The Office of Development Credit—the home of what used to be USAID's DCA—provides USAID missions with tailored transactional support and portfolio-monitoring services. But according to the BUILD Act, the CDO has the authority to coordinate the implementation of activities with USAID and manage DFC staff who are engaged in transactions co-designed by USAID and other agencies.

Interagency coordination is also central to the mandate of the relatively new Office of Strategic Initiatives (OSI). OSI is responsible for DFC's alignment with the administration's foreign policy priorities. Structured along regional and sectoral lines, it organizes DFC's participation in and contributions to interagency initiatives like Power Africa, Prosper Africa, and W-GDP. Though OSI isn't squarely focused on development impact, there is overlap with ODP and the CDO in terms of both the process and objectives of interagency coordination. And the CDO's relationship with OSI will be critical for ensuring development considerations aren't subsumed by foreign policy or national security priorities.

All three of these offices manage efforts that fall under the list of duties outlined for the CDO by the BUILD Act. But because each is overseen by its own vice president with no formal reporting ties to the CDO, it's not yet clear—much less formalized in agency policy—how the CDO will exercise its legislated authority.

The second factor that may complicate the CDO's role is its reporting lines. Per the BUILD Act, the CDO reports not to the DFC CEO like other senior staff but directly to the board. While the intent was likely to elevate the CDO's position—and highlight the importance of DFC's development mandate—in practice, this structure introduces some ambiguity. Is the CDO responsible for providing the Board with an unbiased assessment of how the agency is performing on its development mandate and giving advice/guidance to staff on achieving impact (like an independent auditor would do)? That role could carry implications for the relationship between DFC management and the CDO. Or is the CDO in charge of driving DFC's development efforts, and thus, directly accountable for whether it succeeds? Under the latter configuration, a more formal reporting relationship to the CEO could make more sense. Failure to resolve the inherent tension created by the dual reporting lines could ultimately erode the credibility and effectiveness of the CDO.

The final potential constraint to the CDO's effective operation is staffing. The CDO now manages a small staff that will support building a new institutional culture that prioritizes deals with strong development impact, ensure the agency's new development mandate isn't overshadowed by strategic interests, and harness the tools of other US development agencies in service of DFC's objectives. But since it's still unclear how the CDO will exercise its authority across the agency, the office's staffing needs are likely to continue to evolve.

Transaction-Level Coordination

Deal Origination

With a larger exposure cap, DFC faces pressure to quickly expand its portfolio. But identifying viable projects, especially in LICs and LMICs, could be DFC's toughest challenge. These markets are less established with fewer deals to be had, and those that do exist are often riskier.[13] Meanwhile nearly all major DFIs are being directed to focus in these lower income countries; as a result, they are increasingly competing for the same projects.[14]

DFC will be at a structural disadvantage relative to many of its peers because it is largely Washington-based and lacks proximity to potential projects. (DFC inherited OPIC's staffing patterns with only around 1–2 percent of staff located in the field compared to IFC which has over half its staff based outside of Washington.[15])

Moreover, DFC's model may not be well-suited for proactive deal origination. In the past, since OPIC could only finance projects with a US sponsor, it tended to wait for deals to come to it, rather than seeking them out. Now that the BUILD Act has relaxed the US nexus, DFC can invest in deals that do not have a connection to the US private sector. But this means that DFC will need to be more enterprising in its approach to deal origination.

In the absence of its own field-based staff, DFC was designed to rely in part on US presence at missions to identify transactions and work with DFC's DC-based country deal teams to

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[13] Kenny, Charles, Scott Morris and Vijaya Ramachandran. 2018. "Does the IFC Capital Increase Add Up?" https://www.cgdev.org/blog/does-ifc-capital-increase-add.

[14] Kenny, Charles. 2019. *Can the US Development Finance Corporation Compete?* Washington, DC: Center for Global Development. https://www.cgdev.org/publication/can-us-development-finance-corporation-compete.

[15] Overseas Private Investment Corporation. 2017. *2016 Annual Report*. Washington, DC: Overseas Private Investment Corporation. https://www.dfc.gov/sites/default/files/2019-08/opic_annual_report_2016_web.pdf; International Finance Corporation. 2019. *2019 Annual Report*. Washington, DC: World Bank Group. https://www.ifc.org/wps/wcm/connect/4ffd985d-c160-4b5b-8fbe-3ad2d642bbad/IFC-AR19-Full-Report.pdf?MOD=AJPERES&CVID=mV2uYFU.

bring them to close. To kick this off, each mission identified a relevant DFC liaison at post and brought them to headquarters for a training on DFC procedures and broader deal-making practices. This exercise was undertaken with the goal of better connecting DFC's Mission Transactions Unit (in the Office of Development Credit) with USAID. The mission liaisons are typically Foreign Service Officers (FSOs) from USAID or the State Department's economic team.

This arrangement is creative and efficient. It allows DFC to tap into the US government's existing structures at no cost to the agency and gives USAID and State early influence on DFC projects. Moreover, it offers DFC an opportunity to leverage the DCA team it recently onboarded. DCA is a natural portal for DFC into USAID's deal origination capacity and DCA staff bring knowledge of how to work with USAID missions. And while the mission liaison arrangement will likely need to be tailored to the needs of each mission, there has been some attempt to standardize the process. Specifically, USAID and DFC have co-produced a manual on how to work together, which they will use as operational guidance for the first year and then revise based on experience.

But the model also carries potential pitfalls. How well it works will depend on how well each mission liaison knows the industry and the quality of their private sector networks. State and USAID don't have many private sector transaction-oriented staff and it's questionable whether their officers will be able to develop or hone the skillset or network to originate deals, especially since they rotate quickly out of their assignments. Private sector actors may be less comfortable beginning relationships with FSOs they know are in their last year (or less) of their posting.

Furthermore, deal origination for DFC is not the main duty of FSOs, who are already stretched thin meeting obligations to their own agency. With their performance (and promotion potential) largely graded on criteria specific to their own agency's tasks, without clear incentives to pursue DFC deal origination—and clear articulation by mission leadership that this is a priority—it may get lost amid competing tasks.

Over the near to medium term, leveraging interagency support for a more decentralized DFC may be a better option. And there are indications that this is already underway. The State Department is using Economic Support Fund (ESF) money to fund positions in South Africa and India to work on deal origination throughout both regions. And USAID's Bureau of Food Security is also considering a grant to hire field staff focused on agriculture transactions.

Finally, though indirectly linked to interagency coordination, it is worth underscoring the critical importance of forging partnerships with the MDB system on deal origination. Indeed, deal origination isn't just about building relationships with the private sector but also about building relationships and joining forces with other development finance institutions. With a limited number of deals in target markets, joining into MDB deals will likely account for a sizeable portion of DFC's new investment. OPIC was limited in its ability to conduct joint transactions because of the US nexus and lack of equity authority. But the US nexus requirement has now been relaxed and DFC's new ability to invest equity in deals, particularly in private equity funds, will enhance other DFIs' ability and desire to partner with DFC. OPIC had been left out of many equity funds investing in LICs and LMICs (even some it had initiated) because the agency's available instruments limited its ability to take on the same level of risk that other DFIs were assuming. Since so many equity funds active in LICs and LMICs are backed by DFI equity, DFC's new equity authority will enable its greater participation in these deals, assuming it is sufficiently resourced.[16] Forging strong partnerships with the MDBs both in the field and at headquarters will also be critical to leveraging their pipeline and project co-financing. These organizations should be a first port of call for mission liaisons in the field, and DFC should work closely with Treasury on building relationships and joint programming with the MDBs. Treasury and DFC could explore fielding a DFC detailee to a US Executive Director's office at an MDB to help drive coordination. Another option would be for DFC to send a detailee directly to an MDB operations unit to gain access and visibility into the MDB's investment process.

Monitoring and Evaluation

One important aspect of interagency coordination relates to how DFC monitors and evaluates its projects for development impact. OPIC's monitoring system relied heavily on self-reporting from clients supplemented by a limited number of (not always well documented) site visits.[17] DFC promises to do more. Indeed, building a state-of-the-art monitoring and evaluation (M&E) system will be central to implementing DFC's strengthened focus on development impact. It will also rest, in part, on contributions from other agencies—the State Department and USAID in particular.

A strong M&E system starts with the project selection process. DFC has been developing a new tool, called "Impact Quotient" or IQ, to estimate the development impact of proposed transactions.[18] This score should assist DFC management and Board decision making by demonstrating how well the projects they're asked to approve meet the agency's development mandate. However, limited or poor-quality data and/or the realities of implementation mean that ex ante estimates will only imperfectly predict actual outcomes. Better monitoring and evaluation will be critical complements to the IQ tool. DFC is planning to staff up ODP, in part, to build its own resource base for strengthened M&E. It's also hoping to tap into interagency resources at US embassies to support its M&E needs.

The coordination report notes that the State Department will help provide "ad-hoc reporting on project outcomes" and that USAID will "assist in monitoring DFC-funded transactions,"

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[16] The Trump administration's methodology for scoring the budget implications of equity assumes an unlikely 100 percent loss on equity investments rather than a more evidence-based approach that reviews OPIC's private equity performance. This significantly restricts DFC's ability to leverage investments (Modernizing Foreign Assistance Network. 2019. "What is Equity Scoring and Why is it Important for Financing Development?" http://modernizeaid.net/2019/06/equity-scoring-important-financing-development/).

[17] GAO found that only around a tenth of active projects were visited in a given year and that some site visit reports weren't written until years after the visit. (United States Government Accountability Office. 2015. *Overseas Private Investment Corporation: Additional Actions Could Improve Monitoring Processes.* GAO-16-64. Washington, DC: United States Government Accountability Office. https://www.gao.gov/assets/680/674142.pdf.)

[18] DFC's IQ is the more robust successor to OPIC's development impact matrix.

allowing DFC to get a deeper understanding of its development impact than OPIC was able to do. In principle, this sounds a lot like what coordination should look like—leveraging others' skills to fill in gaps. But it's far from certain that missions are adequately resourced to carry it out.

Though it's not entirely clear what the State Department's task of "ad hoc reporting on project outcomes" entails, the focus on outcomes suggests it may be tapped to undertake occasional evaluations. But this could be problematic since there's evidence that evaluating and reporting on development outcomes isn't a key comparative advantage of the State Department. While the quality of State Department evaluations of OPIC or DFC financed projects has not been assessed specifically, most recent reviews of State's evaluations characterize them as mediocre, on average.[19]

USAID, on the other hand, could be more useful on the M&E side since it has extensive experience with project monitoring. Mission staff spend significant time working with implementing partners to collect and compile output and outcome data and report them back to Washington. But just because skills exist doesn't mean they're easily deployable. USAID's reporting requirements are numerous and time consuming and missions are already short-staffed. In fact, many missions currently contract out their M&E work externally. To understand whether and how USAID resources might be brought to bear to support DFC monitoring needs, there are two questions that will need to be addressed. First, if the plan is to use existing USAID mission M&E staff, how can they be incentivized to spend time on project monitoring for DFC when they are already time-strapped—and when their career advancement is tied to advancing their own agency's objectives? Second, is DFC—or another agency—able to transfer resources to USAID to bolster missions' in-house M&E capacity and/or expand the scope of their M&E contracts, thereby creating more space for monitoring DFC-funded projects?

Opportunities for Complementary Programming

To achieve more strategic deployment of the United States' development finance tools, the coordination report envisages that other agencies will adjust some of their own programming to support or facilitate DFC's interventions. While there's considerable scope for this kind of complementarity, realizing it in practice will depend on close coordination in Washington through channels like the Development Finance Coordination Group, described below, and through the coordination efforts of specific initiatives to which DFC will likely contribute (e.g., Prosper Africa, W-GDP, Asia Edge). Creating the conditions for complementary programming will also depend on good cross agency understanding—in

[19] Woller, Gary, Lawrence Robertson, Christopher Coffman, Dereje Gebreegziabher, and Andres Rueda. 2018. *Examination of Foreign Assistance Evaluation Efforts at The Department of State: A Combined Performance and Meta-Evaluation*. Washington, DC: United States Department of State. https://www.state.gov/wp-content/uploads/2018/12/2018-Examination-of-Foreign-Assistance-Evaluation-Efforts-at-the-Department-of-State-A-Combined-Performance-and-Meta-Evaluation-.pdf; United States Government Accountability Office. 2017. *Foreign Assistance Agencies Can Improve the Quality and Dissemination of Program Evaluation*. GAO-17-316. Washington, DC: United States Government Accountability Office. https://www.gao.gov/products/gao-17-316.

Washington and at post—of one another's tools, resources, needs, and constraints. The following sections highlight some of the main ways key agencies may be able to complement DFC's work.

USAID

USAID's ability to adjust its programming to support DFC needs and opportunities will likely be constrained by the aid agency's limited agility. USAID mission budgets are largely tied up by initiatives (e.g., PEPFAR, Feed the Future) and congressional spending directives, making it hard for missions to reallocate funds for programs that fall outside those commitments. But to the extent that DFC deals fall within a sector that a mission funds, there may be greater scope for alignment. And recent budget requests have included a proposal to use a portion of DFC program funds as a "Matching Fund" to help incentivize project coordination between DFC and State and USAID.[20] USAID could be particularly useful in conducting sector analyses that would benefit DFC or pushing for and/or funding policy or regulatory reforms that could pave the way for a DFC project. USAID has also sometimes used ESF money for targeted technical assistance (TA), so there could be opportunities to use this kind of approach to fund a feasibility study for a potential DFC investment.

Strategic transitions

Another area for possible USAID-DFC coordination is around strategic transitions of USAID programming. As part of the Journey to Self-Reliance, USAID is seeking to identify partner countries with advanced levels of development that are ready to transition from a relationship framed largely around traditional, grant-based foreign aid to one based more on other forms of cooperation that are better matched to the country's needs. Boosting sources of private finance is often a key goal for countries facing a decline in aid flows, and there could be space for USAID, as part of reducing its own footprint, to actively promote US development finance tools as a next phase in the bilateral relationship.[21] That said, opportunities to leverage DFC as part of a strategic transition will be constrained by BUILD Act provisions that require DFC to prioritize LICs and LMICs. Countries under consideration for an aid transition are typically UMICs where DFC support is more constrained. But there may be a good case for DFC to support them in the context of strategic transitions. USAID should ensure DFC is involved early on in consultations about and planning for strategic transitions.

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[20] United States Department of State. 2019. *Fiscal Year 2020 Congressional Budget Justification Department of State, Foreign Operations, and Related Programs*. Washington, DC: United States Department of State. https://www.state.gov/wp-content/uploads/2019/05/FY-2020-CBJ-FINAL.pdf.

[21] Collinson, Erin, Sarah Rose, and Jared Kalow. 2017. *Working Itself Out of a Job: USAID and Smart Strategic Transitions*. Washington, DC: Center for Global Development. https://www.cgdev.org/publication/working-itself-out-job-usaid-and-smart-strategic-transitions.

Enterprise funds

Enterprise funds are private, nonprofit corporations that promote the expansion of private sector activity in developing countries by providing loans, grants, equity investments, feasibility studies, technical assistance, training, insurance, and/or investment guarantees for locally owned, small and medium sized enterprises (SMEs). USAID has led US efforts to capitalize, support, and guide enterprise funds since first developing the tool to support post-communist Europe's transition to a market economy in the late 1980s and early 1990s. While enterprise funds have been established in countries across the income spectrum, they've often been employed as legacy institutions as part of a strategic transition.[22]

While existing enterprise funds will remain under the purview of USAID, the BUILD Act sets the expectation that all new enterprise funds will be established and managed by the DFC.[23] Coordination between the two agencies—which the BUILD Act also specifically calls for—will therefore be key, not only for ensuring the funds' development objectives are well targeted but also for tapping into USAID's expertise on managing enterprise funds and the lessons they've learned.[24]

MCC

MCC's mission—reducing poverty through economic growth—meshes well with DFC's mandate, but the distinct operational models of each agency present a challenge. MCC has active grant programs in only around 10–12 countries at a time and many of those countries are small with few prospects for DFC deals (e.g., Solomon Islands, Lesotho, Timor-Leste). Even in countries where both agencies are likely to be active, timing issues can constrain complementary programming. MCC usually takes around two years to develop five-year grant programs (or "compacts"), while DFC is seeking/funding smaller transactions on an ongoing basis. OPIC's experience with MCC demonstrated that it can be hard to pinpoint opportunities for collaborative programming if the development finance agency isn't looking at something relevant during that two-year period of compact development. Nevertheless,

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22 Collinson et al. 2017; Runde, Daniel, Amasia Zargarian, and Ilona Teleki. 2012. *Strategic Foreign Assistance Transitions*. Washington, DC: Center for Strategic and International Studies. https://csis-prod.s3.amazonaws.com/s3fs-public/legacy_files/files/publication/120622_Runde_StrategicForeignTransition_Web.pd.

23 USAID and DFC Coordination Report, 2019; Leo et al. 2013.

24 Banyan Global. 2017. *Tunisian American Enterprise Fund (TAEF) Evaluation: Final Evaluation Report* https://banyanglobal.com/wp-content/uploads/2018/02/TAEF-Final-Evaluation-Report.pdf; Lancaster, Carol, Kwaku Nuamah, Matthew Lieber, and Todd Johnson. 2006. *Foreign Aid and Private Sector Development*. Watson Institute, Brown University, 2006. http://www.watsoninstitute.org/pub/ForeignAid.pdf; United States Agency for International Development. 2013. *The Enterprise Funds in Europe and Eurasia: Successes and Lessons Learned.* Washington, DC: United States Agency for International Development. https://www.usaid.gov/sites/default/files/documents/1863/EE_Enterprise_Funds-LessonsLearned.pdf. United States General Accounting Office. 1999. *Foreign Assistance: Enterprise Funds' Contributions to Private Sector Development Vary*. Report no. GAO/NSIAD-99-221. Washington, DC: United States General Accounting Office. http://www.gao.gov/assets/230/228226.pdf; Akhtar, Shayerah Ilias, and Marian Lawson. 2018. *OPIC, USAID, and Proposed Development Finance Reorganization*. Washington, DC: Congressional Research Service. https://crsreports.congress.gov/product/pdf/R/R45180.

there is likely scope for more exploration of how MCC might leverage DFC to pursue blended finance in some of its compact programs.

In many cases, MCC compacts could provide opportunities to bring in DFC during the implementation period. For instance, if MCC is supporting the government to create a public-private partnership (PPP), it might be able to coordinate with DFC to come in with follow up capital or guarantees, perhaps through the Office of Development Credit, since MCC itself can't buy into guarantees. MCC may also more proactively seek linkages with DFC as its compact winds down. Though it wasn't specifically coordinated between the two agencies, OPIC came in with financing for renewable energy just as MCC was nearing the end of its energy-focused compact in Malawi. Intentional coordination could bring more of these kinds of opportunities to the fore.

Another way MCC investments can likely facilitate DFC transactions is by helping shape countries' regulatory environments. Many MCC compacts provide support for policy, institutional, and regulatory reform. And all MCC compacts include policy conditions that the host country government agrees to complete as part of the partnership (what MCC calls "conditions precedent").[25] MCC could use a combination of programming and conditions precedent to encourage reforms that would help create a regulatory environment more conducive to foreign investment that would attract DFC attention. For example, MCC and DFC are both committed to advancing the Trump administration's W-GDP initiative. DFC might be able to leverage some of the regulatory reforms around gender MCC is helping to advance in places like Morocco.[26] Or MCC might think about building conditions into its programs related to something like the ratification of the New York Convention on Foreign Arbitration or lifting restrictions on foreign exchange repatriation, both of which are central to an enabling environment for private investment[27]

Blended Finance (USAID and MCC)

DFC could also set up a blended finance transaction window with USAID and MCC. Under such a model DFC could blend its market loans with USAID and/or MCC grants to make more projects bankable by sharing risk in difficult markets. By taking more risk than the private sector or other DFIs, this mechanism could also potentially crowd-in other sources

[25] Many donor agencies seek to support or influence policy reform with mixed success. MCC conditions its support on policy, institutional, or regulatory reform in a way that's less commonly done at USAID, for instance, but it does not guarantee successful or sustainable reform if national governments are ultimately uncommitted to reform (Millennium Challenge Corporation. 2019. "MCC Statement Regarding Termination of the Private Sector Concession by the Government of Ghana." https://www.mcc.gov/news-and-events/release/release-102319-ghana-concession-termination; Rose, Sarah and Franck Wiebe. 2015. *Focus on Country Ownership: MCC's Model in Practice*. Washington, DC: Center for Global Development. https://www.cgdev.org/publication/focus-country-ownership-mccs-model-practice).

[26] MCC's second compact with Morocco includes activities that seek to strengthen women's workforce participation through, in part, the development of gender responsive policy in technical and vocational education and training. It also includes conditions that require new formalized procedures for the conversion of collective land to private land in a way that protects and engages disadvantaged groups like women.

[27] Two of the countries with which MCC is currently developing programs, Timor-Leste and Ethiopia, are not yet signatories to the New York Convention.

of financing. Such a window could provide early stage finance for firms and infrastructure projects or take on first-loss for high-risk projects.[28] And unlike regular DFC investments, projects financed through the blended finance window would be focused on capital preservation but would not seek to make a financial return.

State Department

Embassies—and Ambassadors—may also have a key role in advancing the kinds of commercial policy and regulatory reform that would help DFC make deals in their country. By including these policy issues in their diplomatic communications with partner country governments, the State Department can complement and reinforce efforts promoted (and sometimes funded) by USAID or MCC and help create a more investment friendly environment. And similar to USAID, the State Department has also used ESF funds to provide targeted TA which could potentially be used to fund feasibility studies.[29]

Treasury Department

Coordination with Treasury on co-financing with the multilateral development banks (MDBs) will also be critical for DFC's development impact. Treasury represents the United States in the largest MDBs, including the World Bank Group—which includes the International Finance Corporation (IFC) and the Multilateral Guarantee Agency (MIGA) — the Asian Development Bank, the Inter-American Development Bank, the African Development Bank, the European Bank for Reconstruction and Development and the International Fund for Agricultural Development. These organizations are major players in development finance with robust field presence and well-developed relationships with local private sector actors. DFC would be wise to leverage these organizations' position and seek to co-finance projects as a way of getting a foothold into new frontier markets. Treasury, as the lead agency in charge of the US relationship with the MDBs, can be a powerful ally in promoting joint-work and programs. Conversely, DFC should frequently update Treasury on its plans with the MDBs.

Treasury's Office of Technical Assistance (OTA) can also be complementary given its focus on broader investment and business environment issues. OTA embeds advisors within government agencies to support a host of issues around financial regulation and investment policies, which can help make the regulatory environment more favorable for the kinds of deals DFC might support. In addition, OTA is also increasingly working with state owned utilities to strengthen their balance sheets, thereby improving their credit ratings to allow them to raise investments and finance at lower costs.

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[28] This is similar to Nancy Lee and Dan Preston's proposal for a Stretch Fund (Lee, Nancy and Dan Preston. 2019. *The Stretch Fund Bridging the Gap in the Development Finance Architecture.* Washington, DC: Center for Global Development. https://www.cgdev.org/stretchfund).

[29] In addition to the State Department and USAID, the US Trade and Development Agency can also help with feasibility studies by providing lessons learned or guidance to DFC.

Export-Import Bank

The US EXIM Bank provides trade financing to US companies seeking to export abroad, including in LICs and LMICs. But its mandate—to bolster US job growth—is agnostic about development impact. It seems that close coordination between DFC and EXIM could be important to ensure seamless support for American private sector firms looking for US government backed investment support. DFC will find itself needing to reject certain deals that don't fit well with its stronger development mandate, and some of these, especially those with national security implications, will be appropriate for EXIM. Effective coordination across the two agencies, with support from the White House, can help ensure US financing tools do not forego opportunities to help American firms.

Washington-Based Policy Coordination

DFC Board

The DFC Board is the agency's highest-level decision-making body and a key forum for interagency coordination. The body is made up of the Secretary of State (who chairs the Board), the Administrator of USAID (who serves as vice chair), the Secretary of Commerce, the Secretary of Treasury, and the DFC Chief Executive Officer (CEO). Alongside these government officials are four individuals from the private sector who are appointed by the president and confirmed by the Senate.[30] (The OPIC board, in contrast, was much larger consisting of 15 board members, including eight private sector representatives.)

The DFC board meets on a quarterly basis and is responsible for providing policy direction and oversight. Under OPIC, board meetings tended to focus more on approving individual transactions (only those over $50 million) than providing high-level policy guidance or setting direction for the different agencies to coordinate on programs. But for DFC, there is scope for the board to play a more significant coordination role, especially on major policy issues. Given DFC's triple mandate of achieving development impact, promoting US foreign policy objectives, and maintaining financial sustainability, each agency will have a critical oversight role in ensuring overall balance in the portfolio.

- USAID will have a front-and-center role in ensuring the development mandate is actualized by maintaining a laser focus on the development rationale behind each project, encouraging projects in LICs and LMICs, and keeping the pressure on DFC to improve how it measures development results.
- The State Department will need to ensure that projects are aligned with broader US foreign policy objectives.
- Treasury can be an ally for USAID on the development impact side, promote coordination with the broader MDB universe and help DFC implement a sound risk management strategy both at the financial and transactional level.

[30] Board members can also appoint designees to represent them at Board meetings provided they are Senate confirmed officials.

Development Finance Coordination Working Group

In addition to the board, DFC is also launching another interagency coordination group: the Development Finance Coordination Group (DFCG). Technically separate from the board, the DFCG will bring together working level officials from board agencies along with, depending on the issue, representatives of a broader group of agencies (e.g., MCC, EXIM, the Department of Labor, the United States Trade and Development Agency, and/or the United States Trade Representative) and can implement coordination in a more detailed way than at the principals' level. The DFCG will be the key tool for Washington-based coordination—even more so than the board, though the DFCG should also provide a venue for staff deliberation on decisions that will be elevated to the board. The DFCG is expected to be chaired by the DFC CDO and will convene on a regular basis (likely quarterly, but the frequency could vary depending on the need).

The group is loosely based on the Power Africa Working Group (Box 3) which is generally regarded as a useful inter-agency coordination platform. The main objective of the DFCG is to identify ways the interagency can support DFC by sharing upstream information on transactions and discussing DFC alignment with broader US government priorities at the country and sector-levels. Key to DFCG's effectiveness, will be a willingness to call on relevant agencies when issues arise and the ability to transparently discuss challenges early on.

Box 3. The Power Africa Working Group

The Power Africa Working Group has often been cited as an interagency coordination success story. The working group was set up to advance President Obama's Power Africa initiative, a US government-wide program in which multiple agencies had a direct stake in its success. The Power Africa Working Group helped institutionalize interagency coordination, including information exchange, partnering on projects, sharing resources, and collectively solving problems. Coordination was particularly strong in the working group's early days when the National Security Council played an active co-chair role, lending strong political impetus to the effort. Meeting frequency has varied, with the group convening as often as weekly during peak intensity. Attended by working level staff, discussion is technical and often focused on a list of priority transactions. Different interagency stakeholders brief the group on transaction status and upstream challenges and identify ways that agencies can support bringing deals to close. For instance, if a transaction was being held up because the energy ministry in a partner country was dragging its feet on implementing a reform, the State Department could get its Ambassador on the case. Or if an international financial institution was delaying a transaction, Treasury could get the US Executive Director's office at the right MDB to intervene.

The DFCG could be particularly useful in highlighting opportunities for USAID, MCC and DFC to bring their resources to bear in support of one another's work and support strong linkages with the field. It could also be an opportunity to promote upstream work with the

MDB community through Treasury engagement. Through the MDBs' US Executive Director's offices Treasury has significant sway over the programs and policies of these institutions and votes on all transactions that the MDBs finance. Treasury is also a primary interlocutor with other countries' MDB representatives and is often approached about US development finance investments. In the past, OPIC's inconsistent coordination with Treasury about its MDB deals sometimes complicated Treasury's interactions with its MDB country counterparts when it lacked full information about deals that OPIC was pursuing.

The DFCG will have to be attentive to several pitfalls if it is to be effective. Unlike Power Africa, which is focused on a single continent and a single sector, DFC's scope spans any sector across the developing world. With potentially relevant agency participants spanning across multiple functional and regional bureaus, it could be harder to get the right people in the room. Furthermore, the DFCG will not benefit from a direct linkage to a presidential initiative so it's incumbent upon the group itself to demonstrate usefulness to all its stakeholders to keep them engaged. And with the downsizing of the NSC, the White House is not well positioned to drive DFCG's agenda as it did in the early days of Power Africa.

Recommendations

Coordination Leadership and Staffing at DFC

- **DFC should formalize clear operational standards and procedures for how the CDO will contribute to and oversee its statutory responsibilities that are implemented by other offices.** The CEO should encourage the CDO and ODP, ODC, and OSI to come to an agreement on the particular activities and processes over which the CDO has input or approval authority, based on the broad authorities the BUILD Act outlines for the CDO. Examples of coordination-related processes that the CDO should have formalized authority over include (but are not limited to) clearing on technical assistance (in order to complement and not duplicate USAID, Treasury, or other agencies' technical assistance programs) and providing direction to OSI staff who work at the sector level (to identify opportunities for collaboration and promote harmonization with other agencies' investments in particular sectors). These agreements should then be codified in DFC's operational policy directives to ensure accountability for implementation while also allowing for adjustments over time as necessary.

- **DFC should regularly reassess the staffing needs of the CDO's office for the next two years.** The CDO will need support to leverage other agencies' resources in service of DFC's objectives, build an institutional culture that elevates development impact, and ensure DFC maintains a laser focus on development goals that could easily be overshadowed by geostrategic interests. The CDO's office currently has a small staff but staffing needs may change as the CDO's role and the ways it engages with other parts of the agency become better defined. Over the next two years, DFC leadership should reassess on a quarterly basis the staffing needs of the CDO.

Complementary Programming and Transaction Level Coordination

- **Agencies should share sector analyses across agencies, including policy and regulatory barriers to investment.** A key role the State Department, USAID, and MCC can play is encouraging or supporting policy and regulatory reform that can help pave the way for DFC-supported investment. The DFCG could be a useful body to share country/sector analyses to understand where there might be opportunities for different agencies to exercise influence or support reforms.

- **DFC and EXIM should establish formal communication on deal suitability.** When DFC passes over US-sponsored projects that don't fit well with its development mandate, it should plan to connect with EXIM to ensure opportunities to support American firms aren't lost.

- **The State Department and USAID should include deal origination efforts in foreign service officers' key performance indicators.** Time strapped foreign service officers whose performance evaluations center around their contributions to their own agency's goals may be less likely to prioritize deal origination efforts for DFC if they are not directly incentivized to do so.

- **USAID and/or the State Department should look to foreign service nationals (FSNs) to play DFC liaison roles at missions.** Deal origination requires developing networks and building relationships with private sector actors, as well as a deep understanding of the actors in and political economy of a particular sector or sectors. FSNs, the permanent staff at post, have more opportunity to build networks, relationships, and trust than American FSOs who rotate posts every two to four years.

- **DFC and State should coordinate on efforts to expand DFC's footprint in the field.** The State Department should continue to assist DFC's efforts to decentralize by using ESF and other funding to support an expansion of field-based DFC staff. Priority should be given to establishing lean regional hubs in target LIC and LMIC markets.

- **DFC should transfer resources to USAID to buy into mission M&E capacity.** If USAID field staff are expected to assist in monitoring DFC funded transactions, missions will need resources to supplement existing, time-strapped M&E staff and/or expand the scope of M&E contracts.

- **DFC should staff up ODP's M&E capacity.** While State Department and USAID mission staff can fulfill some M&E functions at the country level, this will only be valuable if there is a strong centralized unit within DFC to provide M&E policy, direction, and guidance—and to ensure DFC systematically uses the M&E information it gets from missions and uses it to inform decisions.

- **DFC, MCC and USAID should explore setting up a blended finance window.** Such a window could allow DFC, USAID and MCC to share risk in more difficult markets and bring additional projects to bankability.

Washington-Based Coordination

- **The CDO should appoint a DFCG secretariat to focus on action items.** The CDO's staff should include a one-person secretariat to steer the DFCG. The secretariat would be responsible for ensuring follow-through on action items between meetings and serve as a port-of-entry for agencies seeking to navigate DFC.

- **Each agency should dedicate a single main DFCG point of contact.** Each agency should appoint a working-level POC for DFC coordination who is empowered to represent their agency's perspective at meetings and is fully briefed on their agency's efforts. DFCG could set up sub-level groups to work on specific countries or sectors that could include country/sector experts on an if-needed ad hoc basis.

- **The DFC should be as transparent as possible about its upstream project pipeline with interagency stakeholders.** Key among transparency efforts should be the creation of a database of deals under consideration with an MDB so that they can be systematically flagged for Treasury.

- **The Board should formally check in on coordination efforts at least once per year.** Board members can promote interagency coordination by requiring an annual board agenda item dedicated exclusively to coordination. There could be a role in this for the Development Advisory Council (DAC), a body established by the BUILD Act to advise the board on how well DFC is meeting its development mandate. To be made up of individuals from non-governmental organizations, think tanks, or other development organizations, the DAC could provide an independent assessment of how well DFC and interagency partners are coordinating and where there may be untapped opportunities. In addition, each agency board member should also be responsible for periodically reporting on their efforts to support DFC. This would set incentives for agency staff to prioritize coordination, knowing they will have to prepare their principals to brief other board members.

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