

To: Adam Boehler, CEO, DFC
 From: Todd Moss, Nonresident Fellow, CGD
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Re: A traffic light system can help the DFC manage its portfolio and avoid OPIC’s pitfalls

The Challenge: The new DFC will face pressures and tradeoffs among its competing mandates to (a) promote development (b) support US economic and foreign policy interests, and (c) invest in commercially-viable projects. The risks of imbalance are especially high because of the DFC’s higher profile, greater exposure limits, and development exemptions from the European Energy Security and Diversification Act.

Lessons from OPIC: DFC’s predecessor agency faced similar pressures that, at times, distorted its portfolio and generated substantial political opposition.

- A drift toward higher income markets generated criticism that OPIC was insufficiently focused on development;
- An overemphasis on commercial returns led to recurring accusations of corporate welfare and crowding out of private capital;
- Use of OPIC projects as rewards for strategic allies weakened project vetting;
- Project-by-project decisions masked cumulative shifts in the overall portfolio.

Recommendation: Utilize and disclose a “Development Impact Traffic Light” to incentivize balance among DFC’s competing mandates and mitigate distortion risks. The Impact Quotient (IQ) can be used with country income groups to produce a simple green-yellow-red system for checking portfolio balance that would be:

1. Publicly disclosed by project
2. Aggregated for the entire DFC portfolio and reported annually
3. Used to ‘right-size’ internal process. Such as:
 - Green = prioritized and fast-tracked
 - Yellow = higher approval bar and greater board scrutiny
 - Red = approved only in rare exceptions

COUNTRY INCOME CLASSIFICATION

	Low <\$1,026	Lower middle \$1,026-\$3,995	Upper middle \$3,996-\$12,375	High >\$12,375
IQ SCORE				
Low				
Moderate				
High				

Conclusion: A traffic light scoring system would assist DFC management, board, and external actors in understanding how the agency is balancing its multiple competing objectives. It would also provide a data-driven defense against the agency’s critics by helping to avoid imbalances in the portfolio.