

Strengthening U.S. Government Development Finance Institutions

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Private finance has become, and will remain, the central defining channel for U.S. global development engagement. In 2000, U.S. private flows to developing countries were roughly equal to official development assistance (ODA). Today, U.S. private flows (\$100 billion-150 billion per year) are three to five times larger, and U.S. private philanthropy exceeds U.S. ODA (\$30 billion) as well. While official U.S. development policy emphasizes private enterprise and market-based solutions, the U.S. is behind the curve in using its government financing and policy tools to maximize the magnitude and strategic impact of private development finance.

The U.S. has well-performing financial instruments to support private sector-based development—including project finance, loan guarantees, political risk insurance and technical assistance grants. However, they are spread among multiple government agencies—principally USAID, the Overseas Private Investment Corporation (OPIC), and the U.S. Trade and Development Agency (TDA). Given this fragmentation, it has proved difficult to pursue a streamlined and scaled engagement strategy that addresses specific development issues in partnership with the private sector. This includes combining policy and regulatory reform, capacity building, and tailored project finance and risk mitigation for specific transactions.

Highly constrained administrative resources have prevented several U.S. government agencies from responding effectively to sharp growth in market demand and changing development dynamics. In other cases, there is a need to modernize agencies' operating authorities and instruments to reflect new market realities.

Below, we summarize near-term U.S. development finance improvements that could be implemented through the FY2015 budget and/or legislation that is already pending. In the longer term, a deeper and broader discussion is needed for exploring how the U.S. and its allies can promote an effective international financial architecture in the post-2015 era, as envisioned by the report of the [High-Level Panel on the Post-2015 Development Agenda](#).

I. RESOURCES

Issue: Many opportunities for high-impact, high-leverage U.S. development engagement are being left on the table. Too little attention has been paid to building U.S. agencies' administrative capacity for partnering with the private sector. For example, OPIC's annual budget has risen from \$58.8 million to only \$80 million over the last decade. It has fewer employees than its Dutch, German or Japanese equivalent agencies. As a result, OPIC has been able to utilize only \$16 billion of its \$29 billion operating cap. When combined with private capital unlocked through OPIC support, this means that upwards of \$40 billion in development

finance is being left on the sidelines. USAID's Development Credit Authority (DCA) budgets have hovered around \$8 million, and indications are that it could crowd in substantial volumes of local private capital through an expansion of its guarantee coverage.

Recommendation: The Obama administration has proposed increases in FY2014 for OPIC (to \$96.8 million) and TDA (\$62.7 million). These increases, along with additional resources for the DCA, need to be protected as the FY2014 appropriations are finalized and raised further for FY2015. More personnel with technical and market expertise in structuring deals are a critical component of an effective, scaled and strategic private sector-based engagement model.

II. INSTRUMENTS AND OPERATING AUTHORITIES

Issue: Successful European development finance agencies, like the Netherlands Development Finance Company (FMO), have periodically updated their strategies, tools (such as permission to borrow on capital markets) and governance structures. U.S. agencies like OPIC are still operating under the same basic rules that applied when they began operations in 1971.

Recommendation: OPIC, TDA and DCA are constrained by outdated rules and stipulations. For example, OPIC lacks the ability to engage in equity or mezzanine finance, or provide first-loss debt. DCA is capped in terms of total project value, rather than against the portion that it actually guarantees (usually 50 percent). These rules should be reviewed, modernized and monitored with a view to expanding each agency's leveraging of private funds.

III. INTERAGENCY COLLABORATION

Issue: Private companies consistently complain about the difficulty in determining whether, and from which agencies, they can receive needed support. They are frustrated by the inability to receive a timely response, whether positive or negative.

Recommendation: USAID should have a pool of funds (\$20-40 million annually) to combine demand-driven technical assistance grants with OPIC project financing in strategic sectors and/or regions. Interagency collaboration should focus on apportioning responsibilities between public and private partners with respect to program implementation. This would combine investment transactions with specific changes in government policy and regulations. Emerging initiatives, such as Power Africa and the New Alliance for Food Security, represent models that should be formalized in a systemic manner.

The U.S. government should expedite information flows and decision making to private partners as a "whole-of-government" function. This could build on USAID's relationship managers and its field investment officers and expand them to serve as contact points for key private partners to access all U.S. government development finance tools. This could require training and/or provision of a one-stop-shop website, with prompt responses to inquiries.