MFAN Recommendations
U.S. Development Finance Corporation
January 2019

Implemented effectively, the U.S. Development Finance Corporation (DFC) established by the BUILD Act will be a powerful addition to the U.S. foreign policy toolkit. Combined with the grant-based assistance of the U.S. Agency for International Development and Millennium Challenge Corporation, the new institution can improve the coherence of U.S. efforts to engage the private sector and help partner countries sustainably eliminate extreme poverty and become more prosperous, democratic, and stable.

To achieve this goal, the DFC should be a world leader in transparency and development impact — working seamlessly with USAID and Administrator Mark Green's Journey to Self-Reliance agenda. Indeed, the DFC's stated purpose is to mobilize private sector capital and skills to complement U.S. development assistance objectives and to advance U.S. foreign policy interests.

To ensure that the agency's form follows this function, the Modernizing Foreign Assistance Network endorses four recommendations for the agency's reorganization plan: ensure accountability for achieving development impact; establish strong linkages with development policies and agencies; lead in transparency; and provide appropriate resources. In implementing these recommendations, we must be mindful that to effectively meet its development mission within the constraints of the market, the DFC must be able to act with speed and agility.

The BUILD Act was enacted thanks to a powerful bipartisan partnership between Congress, the administration, and the development community. In addition to the following recommendations, MFAN encourages the administration and Congress to continue working closely with each other and the development community in perpetuity to shape policies, roles, processes, and personnel. Government stakeholders responsible for the transition, particularly OPIC, should ensure that the transition process is transparent to the public and inclusive.

1. Ensure accountability for achieving development impact

A. Set gold standard for using development impact criteria to inform investment decisions

- To live up to its development mandate, the DFC must establish and publish a robust framework for assessing the potential and actual development impact of its investments and ensure DFC resources are providing additionality and effectively leveraging (and crowding in) other financing sources. As part of this framework, the DFC should identify and incorporate best practices and tools already out there. Organizations such as the Global Innovation Fund have developed tools to draw from, measuring the breadth and depth of an investment's development impact.

- Assessment of development tool: In evaluating the impact of what are higher risk, lower return investments, the DFC must develop an assessment tool to identify how expected impact in various contexts (e.g. lower-income versus upper-middle income countries) can be weighed in the investment decision-making process to balance potential trade-offs between greater impact and lower risk-adjusted financial return.

- Build on OPIC's important existing commitments to environmental and social safeguards, including worker rights and the new women's economic empowerment mandate. The agency should use these screens as a starting point to maximize development impact and raise the quality of its investments with respect to environmental and social standards.

- The rationale and criteria that underpin the successor to OPIC's development impact matrix should be made public.

- Development impact assessment should be incorporated across the investment life cycle, with initial assessment being updated based on new information during the course of the investment and/or at termination.

- The DFC should develop an internal incentive structure to encourage achievement of strong development outcomes and the avoidance of negative environmental and social impacts.

B. Establish a robust system of monitoring, evaluation, and learning

- The agency should establish a robust evaluation framework that meets the Office of Management and Budget's recent high standards, as required by the Foreign Aid Transparency and Accountability Act and the BUILD Act itself.

- Dedicate resources and commit to independent evaluation of a portion of DFC investments, including instituting a process for independent verification of development impact assessments.

- Lead in building the evidence base for responsible and impactful private-sector investing, where possible employing innovative lean, low-cost measurement strategies, such as geospatial evaluations, customer feedback data, and periodic use of prospective and retrospective impact evaluations to assess the development impact of investments.

- Consider connecting sectoral or thematic learning agendas to a series of prospective and retrospective evaluations to make best use of evaluation resources to inform key investment strategy decisions.

- Establish and resource an agency-wide DFC learning agenda, and coordinate with relevant agencies pursuing relevant learning. To start, the DFC, USAID, and MCC should partner as USAID stands up its agency-wide learning agenda around the Journey to Self-Reliance and other topics.

C. Manage risks

- Build upon the experience of OPIC's Office of Accountability. The new accountability mechanism should be fully equipped to address complaints, facilitate the continual improvement of policy and practice across the DFC, and provide remedy when harm occurs. This includes the creation of a reserve fund to facilitate the provision of remedy to adversely affected communities. Robust public consultations should be held to guide the development of the mechanism, including Board resolution, structure, policies, and procedures.

- Create a portfolio-level view of impact that provides detailed information on DFC impact, including jobs created, material benefits generated by investment, co-financing mobilized, additionality, addressing gender equality and social inclusion, and other development indicators.

- Maximize the DFC's development impact through a willingness to undertake greater risk in impactful investments and in poor and fragile countries.

2. Establish strong linkages with development policies and agencies, especially USAID

For the DFC to achieve its goals, the linkages with development policies and agencies - especially USAID - must be strong at all levels.

A. Chief Development Officer (CDO)

The BUILD Act establishes an executive chief development officer (CDO) position. The position is designed to ensure senior leadership and commitment to maximizing development impact. The CDO role should institutionalize linkages between the DFC and USAID through a dual-hatted leadership arrangement and/or other direct oversight mechanisms. The administration's plan should make this position an empowered core of development expertise, with sufficient resources and in-house, full-time staff to:

- Lead within the agency:
  - Play early and lead role in shaping internal policies, investment strategies, and project investments to achieve development impact;
    - E.g. developing a blended finance strategy to de-risk deals, identifying how the DFC can take on riskier tranches to crowd-in private sector investment in high risk but high need sectors and geographies.
  - Develop core metrics to measure development impact and financial return of DFC investments;
  - Oversee transparency, monitoring, evaluation, and learning agenda for the agency, instituting high standards;
  - Oversee the integration of the expertise and staff of USAID's Development Credit Authority (DCA) into the DFC.

- Lead outside the agency:
  - Serve as liaison with development stakeholders inside (e.g. USAID, MCC, TDA) and outside the U.S. Government (e.g. other DFIs, impact investors, civil society).
  - Engage with USAID Missions, including training USAID staff and maintaining an adequate field presence for the DFC to support business development;
  - Work with USAID to incentivize interagency partnership, such as through metrics and staff performance evaluations;
  - Oversee the Development Credit Authority, new grant window, and OPIC's Program for Impact, ensuring that the DFC utilizes the full spectrum of development finance tools, including early-stage investments, where appropriate.

B. DFC Board of Directors and Development Advisory Committee (DAC)

- Elevating the USAID administrator to vice-chair of the DFC board is a welcome start.
- External representatives of the Board of the DFC should have significant international development and civil society and labor union experience. The board of the Millennium Challenge Corporation is a good model to reference.

- To advise the DFC in its development mandate, the new external development advisory council should be composed of highly experienced development leaders charged with providing regular input to the DFC, particularly as the agency establishes its development impact framework and systems of accountability and reporting.

C. Linkage with USAID policies, strategies, and programs

- Because development finance is a critical resource for a country's Journey to Self-Reliance, it should be considered as part of every future USAID strategy and policy, every Mission's Country Development Cooperation Strategy (CDCS), and USAID's internal training and career advancement pathways.
  - USAID should incorporate the DFC as part of its Private Sector Engagement Policy and its forthcoming Policy Framework.

- USAID Country Development Cooperation Strategies for Journey to Self-Reliance Wave 1 and Wave 2 countries should describe how they will leverage DFC tools. USAID and the DFC should intentionally gather and utilize learning from these pilots to inform follow-on efforts.
- USAID should establish staff training and incentives (career advancement, etc.) to utilize DFC tools.

- Institute staff exchanges between USAID and the DFC, such as by establishing a Goldwater-Nichols type of staff secondment between the two agencies to facilitate staff understanding of both the investment and development perspectives.

- Integrate learning agendas, monitoring, evaluation between agencies (DFC, USAID, MCC), as appropriate.

- As USAID's Development Credit Authority moves to the DFC, both agencies must be intentional about investing in day-to-day systems, staffing, and incentives for USAID missions to channel projects to the DFC. The integration process will be crucial for ensuring USAID Missions view the DFC as a resource.

D. Linkage with MCC compacts and policies

- The CDO should establish clear links to the MCC to leverage its unique strengths and tools. For example, as part of MCC's integrated constraints to growth analysis, MCC and the partner country conduct an investment opportunity assessment, which specifically considers private-sector engagement. Ideally, such an assessment could then be used to identify opportunities for the DFC to invest alongside Compact projects and crowd-in private investment.

3. Lead in transparency

The Development Finance Corporation should set a new global standard for transparency, publishing policies, project-level data, evaluations, and the aid data required by the Foreign Aid Transparency and Accountability Act, or PL 114-191, while recognizing that there is a need to balance transparency with commercially sensitive information.

A. Project transparency

- The following kind of project level data[1] – already the norm through the Foreign Aid Transparency and Accountability Act and the International Aid Transparency Initiative (IATI) – should be required:

  - Basic DFC project-level information (e.g. project titles, descriptions, planned and actual project dates);
  - Mindful of protecting commercially sensitive information, project level financial information on the particular investment (e.g. type of finance, commitments, and amounts mobilized from other DFIs and the private sector);
  - Other partners and/or implementers and their role;
  - Basic project description and objectives;
  - Subnational location information;
  - Sector identification; and
  - Impact, results, disaggregated gender data, and other performance data.

- Published DFC data should include searchable IATI/Organization for Economic Cooperation and Development (OECD) policy markers

- The DFC should report its activities to the OECD Development Assistance Committee as follows:
    - Projects should only be reported as Official Development Assistance (ODA) where there is an appropriate level of concessionality and support for the economic development and welfare of the recipient country, and where the project complies with the principles of development effectiveness, particularly transparency, accountability, and country ownership;
    - Other projects should be reported as Other Official Flows (OOF).

- Publish a transparency policy articulating that transparency is the default for the DFC, and describing how the agency will appropriately balance transparency with the need for the confidentiality of commercially sensitive or proprietary data.

- Establish transparency requirements as part of the terms of initial investment so that there is a clear understanding among all parties of what will be made public. The DFC can also create incentives for greater transparency during negotiations.

- Play a leading role in helping companies comply with global disclosure and reporting standards to avoid investments that contribute to tax evasion.

4. Provide appropriate resources.

The core of the new DFC will be the existing staff and functions of OPIC along with staffers and the transferred authority related to the DCA from USAID. New instruments, increased financing to be committed, and the need to ensure proper measurement and evaluation all mean the new DFC will need to be properly staffed and resourced to execute on its mission. While the DFC can achieve many joint goals shared across U.S. agencies, it will only have maximum impact when funded in conjunction with adequately resourced grant-based and other U.S. assistance.

- The DFC is a vital new tool for the United States to advance its interests and values abroad. However, private finance does not and cannot replace U.S. official development assistance (ODA).

- Equity investments of the DFC should be counted as "net present value" for budgetary purposes in order to maximize the impact of this new authority. The Administration should not count equity investments as grants.

- The transition plans for the DFC should include a detailed plan and request for increased resources - including staff - devoted to development impact, accountability, transparency, and environmental and social due diligence necessary to effectively stand up the agency.

- The DFC will need to hire additional investment officers experienced with the new instruments (including equity, local currency loans, first loss guarantees), and to handle the higher volume it can commit on a yearly basis. OPIC is already stretched thin: in 2015, its 230 FTEs were responsible for $4.4 billion in new commitments or approximately $19.1 million per FTE. FMO, the Dutch DFI, has 372 FTEs and made new commitments of $1.8 billion in 2015 or $4.8 million per FTE.