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Strategic Co ition

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The number of people required to review and approve (formally or informally) the project and the number of those who are not finance or development finance experts substantially increases the inefficiency of the DFC's deal review and approval process. It also significantly increases the cost and time required to complete the process.

As part of the project review process, the DFC is required to consult with individuals representing many different federal agencies and Congressional committees. Each of those individuals has a policy interest in DFC deals, but few have the experience to understand the complex and highly sophisticated deals that development finance institutions like the DFC make. At the DFC and other DFIs, each individual whose sign-off is required for a deal usually has at least a decade of experience in finance and/or development finance. The knowledge gained by these years of experience allows them to understand their strategic goals and details of a project much faster and at a more sophisticated level than those without such experience.

Requiring the DFC to receive sign off from multiple individuals at other agencies who lack that experience is extremely time consuming and costly and reduces the DFC's overall effectiveness and competitiveness. Through this lack of understanding, these other agency personnel sometimes (with the best of intentions) push the DFC to adopt policy or commercial positions that are not in the best interests of the project, the DFC, or the USG nor acceptable to the private sector. This makes sponsors significantly less inclined to include the DFC in their infrastructure and other projects globally.

With the transition from the OPIC to the DFC, the pandemic, and the significant growth of the DFC, the change in the personnel of the DFC and, in particular, the loss of experienced professional career staff has been notable—additional attrition appears likely. According to the Federal Employee Viewpoint Survey, conducted by the US Office of Personnel Management, in each of the past three years, 25%–35% of DFC career staff indicated they intend to leave the agency within a year.

High levels of attrition are costly to any organization. It causes a loss in institutional knowledge, a drop in productivity, and an increase in hiring and training costs. According to a recent Gallup study, replacing an employee can cost organizations 1.5 – 2 times the employee's annual salary.[2] Such attrition also frequently causes a loss of customers (borrowers or project developers for the DFC), because of lost relationships, institutional knowledge, and an ability to effectively market and sell the organization and its offerings.

The private sector has noticed attrition at the DFC, particularly with respect to the finance and legal professionals. Attrition creates a great deal of consternation, causing some private sector investors to state that they intend to avoid the DFC in favor of other DFIs. Borrowers and project sponsors strongly prefer dealing with the same DFC team from deal to deal. Doing so allows trusted relationships to form that they rely on to be assured the DFC will continue to act in a reasonable, consistent, and timely manner. Additionally, the private sector's perception is the relative lack of experience within the DFC is making the finance and legal professionals substantially more

While most DFC professionals make the decision to work at the DFC and forego some compensation because they care deeply about the development impact of their work, their morale and desire to remain at DFC suffers because professionals at other USG agencies can earn more money than they do. Historically, pay satisfaction

Bringing private sector investors into a DFC project, even with a 100% DFC guaranty, would help them to become more familiar with the types of projects the DFC finances. Doing so would allow those investors to experience how relatively rarely they need to call on the DFC guaranty. That may make them reconsider the risk they assign to such investments and determine that they can loan funds directly.

This is exactly what DFIs are supposed to do–incentivize or catalyze private sector investors to invest in less-developed countries. The DFC should not be prevented from taking this catalytic action because of an OMB Circular from January 2013 that is inconsistent with the DFC's founding statute.

Senate Bill 3005, the Enhancing American Competitiveness Act of 2023, introduced by Senator Chris Coons and Senator John Cornyn, and referred to the Senate Committee on Foreign Relations, (S. 3005) includes language that would accomplish this recommendation, if passed.

Recommendation 4: Encourage subordinated debt.

The DFC is limited in how much private capital it activates if it only provides senior debt that is first in line for repayment in the event of a default. It also needs to offer more subordinated debt, which allows senior creditors to be paid first. Provision of such debt would require high pricing, but should not require policy justification.

Implementation: Congressional action and DFC Board resolution.

Subordinated debt is a useful tool for DFIs and project developers. There are various instances in which a tranche of DFI subordinated debt makes a project more appealing to private sector developers, equity investors, and lenders. While subordinated debt is, by definition, more risky than senior debt, that economic risk can be offset by proper pricing.

As a development finance institution, it is vital that the DFC does everything reasonable to ensure the developmental objectives of a project are achieved. A Category A project that is done well can be substantially developmental. A Category A project not done well may not meet its developmental objectives and can do significant harm. With respect to such Category A projects, the DFC must have legal rights that permit it to take action if a project is not being completed or operated in a manner that will achieve the intended development. This authority generally is achieved through rights granted to senior (but not subordinated) lenders. Therefore, the DFC should take a subordinated debt position in Category A projects only if it also is a senior lender.

The BUILD Act permits DFC to issue subordinated debt with "a substantive policy rationale."[8] It should be amended so that the Board is permitted to determine circumstances in which the DFC may issue subordinated debt. The Board, then, should adopt a resolution that authorizes and encourages the issuance of subordinated

III. Reduce the Time from Project Submission to Project Approval

Project financings and equity investments in less-developed countries are, by definition, complex and bespoke transactions that require substantial due diligence, local governmental actions, and complicated documentation. All those take substantial time, even in the private sector. However, certain DFC requirements not required of other DFIs, MDBs, or the private sector make the time from project submission to project approval for the DFC even longer. Reducing the necessity of those items, or making the completion of those items more efficient, will significantly improve the DFC's timeliness and its reputation for responsiveness in the market.

Recommendation 7: Align Board approval threshold to current scale.

Implementation: Congressional action or DFC Board resolution.

If requested by the borrower, the Board should require the DFC to rely on the IFC for all projects that involve the DFC and IFC.

Implementation: DFC Board resolution.

Although the DFC uses the International Finance Corporation's (IFC) Performance Standards for its ESG reviews, it independently reviews the environmental assessments, publishes those assessments for public comment, and develops required mitigation measures and contractual language, even if the IFC also is involved in the transaction. In some instances, the DFC's analysis and resulting requirements differs from those of the IFC.

The DFC is currently reviewing and updating its Environmental and Social Policy and Procedures. Accordingly, now is an ideal time to make the changes recommended here.

It is important to note that, even under these recommendations, the DFC will be required to disclose the environmental reports and to receive and respond to public comment under Section 1451(e) of the BUILD Act. DFC staff also will need to read and fully understand the environmental reports to respond to the public comments and questions posed by other stakeholders, such as Congress and the DFC's Board.

Recommendation 9: Simplify collateral for smaller loans.

Encourage securing loans and loan guaranties of less than $20 million only with a pledge of shares. Obtaining addiID 431 Tac5 (ol)-0.coler Taon , ev1 (t)-1 (houansact)-1 (agame irs, suc5 (o10.coler TaFC rato rely)20.0 (e)2xlat)20 ci poseec

Therefore, as the cost of obtaining and enforcing security for a small project is highly unlikely to exceed any recovery (even in the relatively unusual event that the DFC attempts to enforce its security), DFC rarely takes such enforcement actions.

Obtaining and enforcing a share pledge is, relatively speaking, less time consuming and costly. It also ensures that sponsors cannot benefit from their failed project.

In 2022, this recommendation would have saved considerable time and cost for 75 loans and loan guaranties, without any measurable increase in risk or reduction in recovery.