

DFC's Roadmap for Impact



DFC's Inaugural
Development Strategy

January 2020 - December 2025

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MESSAGE FROM THE CHIEF EXECUTIVE OFFICER AND CHIEF DEVELOPMENT OFFICER

Around the world, countries face challenges that disrupt economic and development growth. These challenges require innovative and strong finance tools to facilitate market-based private-sector development and inclusive economic growth that complement the United States' development objectives and foreign policy interests. The Better Utilization of Investments Leading to Development Act of 2018 (BUILD Act) launched a new era for development finance to meet these challenges by establishing America's new development finance bank, the U.S. International Development Finance Corporation (DFC).

DFC continues to partner with the private sector to finance solutions to the critical development challenges facing the world today, including the COVID-19 pandemic. As we respond to the pandemic, we remain committed to supporting projects that have a significant development impact in the world's poorest and most fragile countries, provide benefits to underserved populations, and advance the foreign policy and economic interests of the American people.

As America's development finance institution, it is critical that we support countries that struggle to attract investments or where our support can serve as a stabilizing force. We are proud that over 60 percent of projects approved since January 2020 are focused in less developed countries and fragile states. Through our private sector partners, we support sectors including energy; education; healthcare; agriculture; financial services; technology; critical infrastructure; low-income housing, and water, sanitation, and hygiene. We provide financing to women entrepreneurs and underserved populations who would struggle to get access to capital.

As we move forward, through the DFC's Health and Prosperity initiative, we are investing up to \$2 billion in private sector projects to help less developed countries address impacts of the COVID-19 pandemic. We are investing up to \$900 million to support early social enterprises (i.e., impact-driven companies) through our Portfolio for Impact and Innovation; empowering women through our \$6 billion 2X Women's Initiative; and investing more than \$1 billion to advance connectivity in Africa through our Connect Africa Initiative.

With our new financial tools, we are better positioned to support our partners and private-sector clients, reduce barriers to private investment, and increase support to private sector while increasing our operational efficiency. For example, our new equity financing capabilities and technical development grants provide us opportunities to support more innovative projects and deliver our partners early-stage capital to help de-risk investments.

And we are only getting started. DFC can support both U.S. investors and local investors around the world, which will further catalyze locally led development in countries. As we expand our client base, we will continue to collaborate with our U.S. Government counterparts and like-minded partners to ensure that our investments complement each other and that we leverage opportunities to better collaborate. We are committed to providing innovative solutions to help support resilient economies—always remembering that there is a person behind each investment.



Adam Boehler
Chief Executive Officer



Andrew Herscovitz
Chief Development Officer

ACKNOWLEDGMENTS

The U.S. International Development Finance Corporation (DFC)'s Roadmap for Impact emerged from the initial work of DFC's COVID Task Force and extensive collaboration between the DFC's Chief Development Officer's office and other DFC departments and offices. DFC sought input from over 100 external stakeholders, including other U.S. Government (USG) agencies, foundations, development finance institutions, clients, think-tanks, non-governmental organizations, congressional staff, and the private sector to ensure that there was broad-based feedback and buy-in for DFC's approach.

The Roadmap for Impact would not be possible without the specific guidance and input that non-USG stakeholders provided. DFC would like to thank the following individuals who provided insightful comments and feedback:

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PREAMBLE

Development finance is neither simple nor easy. The countries that most desperately need development finance (low income and fragile countries) are the same countries where it is most difficult to attract private capital because of high risk, limited capacity, weak governance, and instability. The U.S. International Development Finance Corporation (DFC) can offer competitive interest rates and long tenors, and we can mitigate the risks associated with certain projects by partnering with the U.S. Agency for International Development (USAID) and other U.S. Government agencies, public institutions, or private foundations, who can provide additional grant funding. But we generally cannot and should not invest in or finance projects that we are fairly certain are not economically viable over the long term or those projects that crowd out private investment. There may be circumstances where DFC supports a project that may have an expected negative financial rate of return, but we would expect a positive developmental or political rate of return. For example, if DFC guarantees a portfolio of loans for hundreds of borrowers, we can expect that at least some of those loans will default, but many others borrowers will benefit.

DFC continues to work with the Overseas Private Investment Corporation's (OPIC) and USAID's Development Credit Authority's (DCA) existing clients who have been doing deals in emerging markets for many years. These clients understand risk and operate ethically in challenging investment climates. With our inaugural Roadmap for Impact, DFC is re-committed to making investments in places and sectors that need development capital are and that are, in some cases, riskier. We are committed to going outside of our comfort zone, while also making sure that we are being responsible to the U.S. taxpayer.

The metrics in this Roadmap for Impact are ambitious, and, therefore aspirational. We may achieve them, and we may not. We will work hard to

try to identify investments that will advance these metrics. We will try to staff up with people who have expertise in new sectors, and we will work with trade associations, chambers of commerce, civil society organizations, U.S. embassies overseas, and other partners to identify new clients and investments. DFC will identify local partners that can help drive sustainable development and that meet our social, environmental, and governance standards – local companies that could become trade and investment partners of U.S. companies.

That's development: learning from our successes and our failures and trying our best to tackle issues from as many different angles as possible until we find approaches that work.

DFC was fortunate to inherit an experienced, committed, and talented team of professionals from both OPIC and USAID – people who have seen and tried to do every type of investment imaginable over the last few decades – sometimes with success, and sometimes without success. That's development: learning from our successes and our failures and trying our best to tackle issues from as many different angles as possible until we find approaches that work.

We have taken a broad approach, covering sectors and themes that those in the development and finance communities agree can be addressed and need to be addressed. We expect this Roadmap for Impact to be a living document – one that we can change as we learn from our experiences. We all have learned from the COVID-19 pandemic that we must be flexible and that priorities change. As a development institution, the DFC team is committed to adjusting and moving with that change.

ACRONYMS

BUILD Act	Better Utilization of Investments Leading to Development Act of 2018
CEO	Chief Executive Officer
CDO	Chief Development Officer
COVID-19	Coronavirus Disease 2019
DCA	USAID's Development Credit Authority
DFC	International Development Finance Corporation
DFI	Development finance institution
EPA	U.S. Environmental Protection Agency
ESPP	DFC Environmental and Social Policy and Procedures
GDP	Gross domestic product
HIC	High-income country
HIPSO	Harmonized Indicators
ICT	Information and communications technology
IFC	International Finance Corporation
IFI	International financial institution
IPP	Independent Power Producer
IQ	Impact Quotient
LIC	Low-income country
LMIC	Lower middle-income country
LPG	Loan portfolio guarantee
MCC	Millennium Challenge Corporation
M&E	Monitoring and evaluation
MSME	Micro, small and medium enterprises
NGO	Non-governmental organization
NSS	U.S. National Security Strategy
OPIC	Overseas Private Investment Corporation
PEPFAR	President's Emergency Plan for AIDS Relief
PMI	President's Malaria Initiative
PPE	Personal protective equipment
PPP	Public-Private Partnership
SMEs	Small and medium-sized enterprises
T&D	Transmission and distribution infrastructure
UMIC	Upper middle-income country
USAID	U.S. Agency for International Development
USG	U.S. Government
WASH	Water, Sanitation, and Hygiene

EXECUTIVE SUMMARY

Through the U.S. International Development Finance Corporation (DFC), the U.S. Government (USG) accelerates the flow of private capital to less developed countries by supporting private sector investments that cannot obtain financing from other sources. This support is essential to advancing key sectors, such as infrastructure, agriculture, and health, which improve the quality of life for millions and lay the groundwork for modern, inclusive, and sustainable economies. Equipped with new financial tools, DFC has the flexibility to catalyze private capital to spur development, advance U.S. foreign policy, and generate returns for the American taxpayer—a triple impact.

DFC's Roadmap for Impact (Roadmap) takes into account global development needs to establish portfolio-wide development priorities. The Roadmap identifies opportunities to increase private investment in low-income countries (LIC) and lower middle-income countries (LMIC)—targeting 60 percent of total portfolio projects in LICs, LMICs or fragile states. It also recognizes the importance of supporting projects that are significantly developmental or that target the most vulnerable populations in upper middle-income countries (UMICs). In addition, the Roadmap defines priority cross-cutting development themes and sectors, and it establishes investment goals and development metrics in order to focus DFC's investment activities and measure our progress.

DFC will catalyze \$75 billion to maximize development impact while creating strategic and sustainable growth.

The Roadmap outlines capabilities and resources that are required to achieve these development goals, with an emphasis on enhanced coordination within DFC and across USG initiatives, departments and agencies, development finance institutions (DFIs), international financial institutions (IFIs), and other members of the development community. It also emphasizes the importance of transparency and enhanced social and environmental standards in the design and sustainable execution of DFC-supported projects in order to demonstrate that the U.S.-led model of development advances the best interests of Americans, host countries, and the planet whenever we invest.

The Roadmap does not reflect an exhaustive list of the sectors where DFC invests; rather, it focuses on sectors where DFC investments and technical assistance can have the greatest, measurable development impact over the next five years. Working closely with newly created U.S. Embassy deal teams, particularly with the Departments of State's and Commerce's DC Central Deal Team, as well as with DFC liaisons at U.S. Agency for International Development (USAID) missions worldwide, DFC can expand its client base and broaden the markets it serves. It will not be easy; and it will require additional resources, private capital to invest alongside, changes to processes, and patience. But DFC is committed to prioritizing the most highly developmental projects in the most underserved communities worldwide.

Cross-Cutting Development Themes

DFC will prioritize projects to advance the following seven cross-cutting developmental themes:

Innovation Across the Development Finance Lifecycle. DFC will strive to support transformative technologies and financial practices that positively impact lives while creating economic opportunity abroad.

Financial Systems Strengthening. DFC will use the transactions it supports to improve the financing opportunities and related investment conditions in developing countries and key sectors.

Protecting Workers. DFC will encourage its private-sector clients to adopt enhanced worker protections and benefits appropriate for the countries they work in.

Sustainable Job Creation. DFC will support transactions that lead to direct and indirect job creation.

Women's Economic Empowerment. DFC will provide financing to women entrepreneurs and women-owned small businesses and support projects that benefit women by creating an enabling environment that promotes inclusion.

Bolstering Manufacturing and Global Supply Chains. DFC will support the diversification of critical supply chains by investing in sectors to counter shortages of essential goods, disruptions in sourcing raw materials, and the inability of industries to meet consumer demands.

Empowering U.S. and Local Businesses. DFC aims to promote self-reliance and sustainability within countries, while increasing opportunities for U.S. company partnerships.

Priority Development Sectors

DFC will prioritize the following Development Sectors that align with U.S. development and foreign policy, DFC's mission and financing capabilities, and global efforts to address the short- and long-term socioeconomic impacts of unprecedented shocks, such as the COVID-19 pandemic:

Technology and Infrastructure. DFC will invest in technology, including information and communications technology (ICT) and infrastructure projects to spur economic growth through increased trade and regional connectivity (e.g., roads bridges, and ports), as well as infrastructure projects that provide people with basic needs (e.g., housing, hospitals, etc.).

Energy. DFC will help address growing energy demands in developing countries, provide competitive, sustainable and reliable electricity and sources of energy, expand electricity access, and promote energy security and diversification.

Financial Inclusion. DFC will provide sustainable financial services and credit to women, small businesses, and other underserved groups to increase economic participation and prosperity within communities.

Food Security and Agriculture. DFC will invest in projects that promote nutrition, food security and robust agriculture value chains by linking smallholder farmers to markets and innovations, supporting agro-processing and storage companies, advancing industrialization, and growing local small and medium enterprises that form the backbone of a vibrant agriculture sector in lower income countries.

Health. DFC will tackle health challenges through its support for private sector investment including strengthening healthcare supply chains, expanding access to healthcare professionals, building critical

care facilities, and providing lifesaving treatments. It will also support the extension of services, vaccines, diagnostics, therapeutics and other products related to the COVID-19 response.

Water, Sanitation, and Hygiene. DFC will seek, through the private sector, to expand access to

clean drinking water, improve water and sanitation services, promote the adoption of new technologies and introduce water management practices to help countries cope with health hazards, expand economic opportunities, and address rising pressures on water resources.

By 2025, DFC aims to invest over \$25 billion and mobilize an additional \$50 billion of capital across priority Development Sectors to reach 30 million people and finance at least 300 projects in less developed countries, deploy new technologies, and expand DFC's client base.

DFC aims to achieve development goals that cut-across DFC's full portfolio:

- Conduct at least **60%** of its projects in LICs, LMICs, and fragile states.
- Reach **12 million** women and **6 million** marginalized individuals.
- Elevate innovation and technology across **50%** of DFC's portfolio
- Support the creation of **100,000** new local jobs.
- Expand and diversify DFC's client base by adding **15** new clients each year and targeting **30%** of all clients to be local or regionally based.

DFC aims to achieve the following aspirational investment targets (commitments) and development goals (projected outputs) over the next five years:

Technology and Infrastructure

Commit to **\$5 billion** in technology and critical infrastructure.

Expand logistics, warehousing and transportation infrastructure to increase regional and global connectivity through **10** major infrastructure projects in LICs, LMICs, and fragile states.

Increase internet access for 3 million people.

Energy

Commit to **\$10 billion** energy sector investments.

Increase country and regional energy security through diversified domestic power generation in **10 countries** and **at least two cross-border investments.**

Increase electricity access for at least 10 million people by 2025.

Financial Inclusion

Commit to catalyze **\$6 billion** directly and indirectly in 2X qualifying transactions.

Commit to **\$100 million** in projects that include innovations in financial technology.

Bring 100 companies into the formal sector.

Health

Commit to **\$3 billion** and catalyze \$6 billion more from the private sector in health.

Increase access to health care by supporting **10** new healthcare facilities in LICs, LMICs, and underserved communities in UMICs.

Provide healthcare services to at least 2 million people.

Food Security & Agriculture

Commit **\$500 million** over **50** investments.

Commit **75%** of projects in LICs, LMICs, and fragile states.

Support at least 1 million smallholder farmers.

Water, Sanitation, & Hygiene

Commit to at least **\$250 million** in WASH projects globally.

Commit to at least **25** WASH projects in LICs and LMICs.

Increase access to potable water for at least 1 million customers.

Capabilities and Resources

Achieving the Roadmap's investment targets and development goals will require DFC to build or acquire capabilities and resources in several areas including:

- **Internal Collaboration.** DFC will improve internal business processes to drive new deal flow in priority sectors and enhance development-related coordination.
- **Interagency Coordination.** DFC will facilitate a more holistic approach to the USG's development activities, from policy and planning initiatives to project development and monitoring and evaluation.
- **Business Development.** DFC will assume a more active role in identifying and building relationships with the private sector and other external partners that are engaged in DFC's priority sectors.
- **Financial Innovation.** DFC will collaborate with interagency partners to design transaction structures and blended finance tools that help all parties advance their common development goals.
- **Monitoring and Evaluation.** DFC will launch and operationalize a more advanced monitoring, evaluation, and learning strategy, leveraging technology and systems to fully integrate with the Impact Quotient tool to provide DFC a holistic, ex-ante and ex-post assessment of the Agency's development performance for the entire portfolio.

Conclusion

A key goal of USG international development efforts is to help developing countries achieve self-sustaining economic growth that can alleviate poverty. DFC works to ensure projects produce positive developmental impacts, apply best practices with respect to environmental and social safeguards, and respect human rights, including worker rights. Fostering an environment that is conducive to private sector development, job creation, and sustainable and inclusive economic growth is essential to the achievement of this goal. Furthermore, the increased portfolio authorization and addition of more modern investment tools equips DFC to mobilize substantially more capital to advance development and grow economies. However, for DFC to achieve the goals under this Roadmap, it will require the resources necessary to pursue transactions in the most challenging investment climates, which are

inherently risky and expensive to finance. DFC will track how much capital it is mobilizing across its portfolio. By utilizing its new tools and flexibilities to bridge financing gaps and increase the flow of private capital to emerging markets, especially in less developed and fragile countries, DFC can play a central role in the implementation of the USG's development and foreign policy objectives. DFC will work to operationalize the Roadmap by embedding its priorities within its internal systems and processes, collaborating with USG and external partners to achieve shared development goals, and seeking out the capabilities and resources required to maximize DFC's global development impact.

Do you have comments or questions on DFC's Roadmap for Impact? Contact: DFCRoadmapforImpact@dfc.gov

INTRODUCTION

The Better Utilization of Investments Leading to Development (BUILD) Act of 2018 consolidated, modernized, and reformed the USG's development finance capabilities – Overseas Private Investment Corporation (OPIC) and the Development Credit Authority (DCA) – into a new independent agency: the United States International Development Finance Corporation (DFC).

DFC is America's development bank. DFC uses development finance tools, such as loans, guarantees, investment funds, technical assistance, equity investments, and political-risk insurance, to facilitate private-sector investment in emerging markets, further U.S. foreign policy interests, and generate positive developmental impacts. DFC support also unlocks greater economic freedom and opportunity for women, micro-, small-and medium-sized enterprises, and other populations that do not have sufficient access to commercial financing. DFC investments adhere to environmental, social, and governance standards and underscore the U.S. value proposition overseas.

Through the BUILD Act, the Administration and Congress created new tools, mechanisms, and operational flexibilities that empower DFC to reach a broader set of projects and to support DFC's development mission, including the Chief Development Officer and the Development Advisory Council. In addition, DFC recently launched its Impact Quotient (IQ) methodology to measure the development impact of its projects. Through

the IQ, transactions are evaluated against specific developmental criteria underpinning the new tool and evaluated based on indicators and metrics that can be categorized into three overarching themes or "pillars": economic growth, inclusion, and innovation. The IQ methodology creates a framework for DFC to consider projects that align with the Roadmap.

DFC support also unlocks greater economic freedom and opportunity for women, micro-, small-and medium-sized enterprises, and other populations that do not have sufficient access to commercial financing.

With greater ability to support projects and DFC's mandate to ensure it invests in projects that advance U.S. developmental goals, coordination across the USG's development agencies is essential. By working closely with other USG agencies, in addition to development finance institutions (DFIs), international financial institutions (IFIs), U.S. and host country private companies, foundations, non-governmental organizations (NGOs), and other development partners, DFC can drive greater development impact and increase self-reliance in the developing world.

PURPOSE

While the BUILD Act requires DFC to prioritize investments in less developed countries, as well as developmental projects in UMICs, it does not prescribe an approach to achieving global development impact on a sectoral basis. DFC aims to advance economic and human development indicators through a more targeted, sustainable and transparent investment approach. The purpose of this Roadmap is to focus DFC's investments and technical assistance on areas where DFC can have the greatest development impact and to establish metrics to help assess progress.

The Roadmap will assist DFC and its partners by:

- Defining guiding principles for DFC based on the DFC's strategic objectives;
- Focusing DFC's development efforts on key sectors and themes to maximize impact;
- Identifying development goals to assess and demonstrate progress; and
- Identifying capabilities and resources required to achieve these goals, with an emphasis on coordination across the USG, DFIs, IFIs, and members of the development community.

METHODOLOGY

The Roadmap for Impact identifies six priority Development Sectors and seven cross-cutting development themes that align with DFC's mission and financing capabilities. The selection of sectoral focus areas in the Roadmap for Impact was based on the following criteria:

- Alignment to USG development and foreign policy objectives;
- Opportunity to strengthen response, mitigation, and recovery from market disruptions or financial shocks;
- The ability of projects in the sector to drive development impact across one or more of the Impact Quotient Development Pillars;
- The potential for private investment in the sector; and
- DFC's capacity to address barriers to private investment in the sector.

The Roadmap's priority Development Sectors are not meant to be exhaustive of the sectors in which DFC operates nor preclude DFC from supporting projects in other areas. For example, DFC will continue to support projects in the education sector. The sectors identified in the Roadmap are designed to help DFC more proactively seek out and assess projects in areas that are highly likely to result in positive, measurable development outcomes. In practice, additional consideration will be given to the country-level development context, such as the project's contribution to the strengthening of the enabling environment and rule of law (e.g., if a project leads a country to adopt international standards on dispute resolution).

DFC will explore opportunities to collaborate with other public sector partners, sovereign wealth funds, and pension funds to leverage greater and more sustainable investments in challenging investment climates. DFC conducts detailed evaluations on a project-by-project basis with project bankability and other investment criteria

being critical to ensuring that a given transaction can be successful in order to have the intended development impact. DFC also remains committed to continuing to find ways to increase efficiency in its decision making processes so that the U.S. and other clients are not put at a competitive disadvantage to others.

There are many ways to measure development progress, including investment amounts, the number and type of beneficiaries, or other characteristics that help quantify the impact of an investment within a specific context. DFC's IQ tool considers these types of performance indicators on a project-by-project basis but does not directly inform the DFC's investment strategy or deal sourcing. Furthermore, DFC's metrics are aligned with Harmonized Indicators and/or IRIS+ measuring systems and DFC follows the International Finance Corporation's (IFC) performance standards. The Roadmap aims to embed these measures into DFC's operations and evaluate development progress on a portfolio-wide basis.

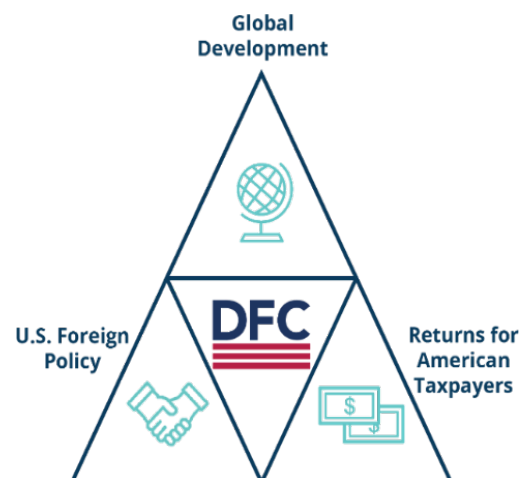
The Roadmap identifies three types of performance metrics, which are designed to encourage DFC's deal teams to pursue strategic transactions and enable DFC to track and measure its impact in each priority sector from January 1, 2020 to December 31, 2025. DFC will provide analysis of the metrics in annual reports. The metrics are defined as the following:

- **Investment Targets:** The commitment amount and number of projects committed that DFC aims to support.
- **Development Goals:** The projected development output(s) that DFC aims to achieve.
- **Aspirational Milestones:** Internal goals that are highly developmental in nature, but that may not be readily measurable or applicable on a portfolio-wide basis.

DFC OVERVIEW

DFC provides the United States with the flexibility to introduce new and innovative financial products to better bring private capital to the developing world. DFC investments drive economic growth, create stability, and improve livelihoods. DFC makes America a stronger and more competitive leader on the global development stage, with a greater ability to partner with allies on transformative projects and provides financially sound alternatives to malign state-directed initiatives that can leave developing countries worse off. DFC's work takes a Triple Aim approach, focusing on achieving global development impact, advancing U.S. foreign policy, and generating returns for American taxpayers.

DFC's Triple Aim Approach



STRATEGIC OBJECTIVES

Based on the BUILD Act's guidelines, DFC has three overarching strategic objectives, which factor in USG foreign policy and development priorities:

- Promote inclusive economic growth and stability with a focus on lower-income countries, countries recovering from conflict or terrorist violence, and those struggling to stem migration flows;
- Counter predatory state-directed investment and other malign influence, preserve partner-

country sovereignty, and foster self-reliance; and

- Support countries undergoing market transformation and democratic reform.

Across the Roadmap's priority Development Sectors and Themes, the Roadmap integrates and advances both DFC and USG initiatives.

Technology & Infrastructure	Energy	Financial Inclusion
<ul style="list-style-type: none"> • Connect Africa • Prosper Africa • Indo-Pac Strategy • Three Seas Initiative • Mekong Fund 	<ul style="list-style-type: none"> • Three Seas Initiative • Power Africa • Asia Edge • America Crece • European Energy Security & Diversification Act 	<ul style="list-style-type: none"> • 2X Women's Initiative • DFC's Portfolio for Impact and Innovation Initiative
Food Security & Agriculture	Health	Water, Sanitation, & Hygiene
<ul style="list-style-type: none"> • 2X, Northern Triangle • Colombia Eradicate Coca • Feed the Future • Food for Progress 	<ul style="list-style-type: none"> • DFC Health & Prosperity Initiative • Global Health Security Agenda • PEPFAR • President's Malaria Initiative 	<ul style="list-style-type: none"> • 2X Women's Initiative • Ocean Plastics & Waste Management • Health and Prosperity • U.S. Global Water Strategy
Initiatives that Apply Across Sectors		
National Security Strategy; 2X Initiative; Prosper Africa; DFC Fragile States Approach; Global Fragility Act of 2019; and the range of DFC and USG Region and Country-focused Initiatives.		

PRODUCTS AND ELIGIBILITY

The BUILD Act financial products and project eligibility criteria provides a modern toolkit that enables broader collaboration with the private sector and development community. In addition to debt financing and political risk insurance products, DFC is authorized to make equity investments and provide technical assistance to its partners. Furthermore, the BUILD Act also increased DFC's ability to

provide local currency loans, first loss guarantees, and small grants for feasibility studies to support development initiatives. DFC is able to support projects that involve non-U.S. investors when they meet the Agency's eligibility criteria, which includes positive developmental impacts and adherence to DFC's investment standards, as detailed in DFC's Environmental and Social Policy and Procedures¹.

DFC's Product Offering



Debt Financing

Direct loans and guaranties of up to \$1 billion for tenors as long as 25 years, with specific programs targeting small and medium U.S. businesses.



Political Risk

Coverage of up to \$1 billion against losses due to currency inconvertibility, government interference, and political violence including terrorism. DFC also offers reinsurance to increase underwriting capacity.



Equity Financing

Direct equity and support for investment funds.



Technical Development

Feasibility studies and technical assistance accelerate project identification and preparation to better attract and support private investment in development outcomes.

DFC's First Equity Investments

The USG has multiple tools for helping developing countries become more self-reliant. When Congress created DFC, it provided DFC with the authority to make equity investments. Among the conditions to make equity investments are the following:

- The investment should address a market failure;
- The investment would not happen or would be delayed without DFC support;
- The investment should help transform local conditions to promote the development of markets;

- The investment should include commercial partners; and
- The investment should promote “significant developmental impact” and be designed in a way that is commercially sustainable.

The direct development impacts of equity investments in funds include strengthening financial markets and job creation in the formal sector. DFC moved forward with great caution with respect to its first round of equity investments. During pre-marketing, DFC engaged in conversations with over 200 prospective applicants and ultimately screened 38 applications for further review, of which five funds and one direct investment proceeded to Board for approval. These investments offered the opportunity for DFC to test different models, different markets, and different types of partners. DFC consulted with other DFIs regarding their use of equity, and as is required by DFC statute, worked hand-in-hand throughout the selection process with our competitively selected private equity consultants. As DFC starts to ramp up its equity investments, it will have to strike a delicate balance between maximizing private investment (i.e., as a minority investor) and being an active investor that help influence maximum development impact.

COVID-19

The COVID-19 pandemic has reinforced the importance of effective international coordination and will affect global development needs for years to come. DFC has already taken significant steps to address the impact of the pandemic on its existing investments and development agenda, establishing a \$4 billion COVID-19 Rapid Response Liquidity Facility to fund working capital needs and essential activities across DFC’s portfolio and launching a new Health and Prosperity Initiative (designed and launched in advance of the overarching Roadmap for Impact), which includes a call for proposals from private sector entities seeking DFC support for health-related investments in developing countries. Through the initiative, DFC seeks to commit up to \$2 billion across eligible projects and mobilize an additional \$3 billion in private sector capital alongside its investments by 2023. Other DFIs and private funders have also stepped up to help mitigate the damages caused by COVID-19.

In 2020, DFC hired a surge COVID-19 response team to complement the work of DFC’s existing

business line departments in responding quickly to high impact, high priority transaction opportunities across a variety of sectors. For example, reliable electricity and resilient power systems are required to power health centers, ventilators, and other life-saving equipment; personal hygiene and handwashing protocols depend on clean and accessible water systems; amid social distancing rules, IT and telecommunications infrastructure that enable internet connectivity are more fundamental to education and economic participation than ever before; and, sovereign loans are saddling developing countries with crippling debt. For this reason, DFC’s Roadmap for Impact looks at DFC’s investments through a COVID-19 lens – searching for ways that DFC can contribute not only to the current global response but also can be prepared to help build resilient communities and economies that can recover sustainably from future shocks or global crises similar to the pandemic.

LESS DEVELOPED COUNTRY FOCUS

The BUILD Act emphasizes DFC's development focus by mandating it to prioritize "less developed countries and countries in transition from nonmarket to market economies²." Although DFC will continue to support highly impactful projects in UMICs, these investments should further U.S. economic or foreign policy interests and produce significant developmental outcomes or provide developmental benefits to underserved populations in that country.

Consistent with the *BUILD Act's* mandate, DFC seeks to conduct at least 60 percent of its projects in low-income countries, lower-middle income countries, and fragile states.

Achieving this goal will require vigilant monitoring of DFC's investment strategy and portfolio given the significantly greater challenges and higher costs often associated with investing in LICs, LMICs, and fragile states. DFC will work to further develop a risk and portfolio allocation framework to support higher risk transactions in less developed countries. In addition, in the post-COVID environment, DFC can play a critical role in helping prevent vulnerable UMICs from sliding back into LMIC or even LIC status based on the economic contractions that many of these UMICs have suffered.

FRAGILE STATES APPROACH

Enhancing and expanding DFC's efforts in fragile states is essential to realizing its mandate of advancing economic development and U.S. foreign policy. Fragility, conflict and violence not only fuel threats to U.S. foreign policy interests, they disrupt economic growth at both a regional and global level. Estimates placed the economic cost of conflict at \$14.5 trillion in 2019, and that cost is growing.

Consistent with both the BUILD Act and the Global Fragility Act of 2019, DFC believes that leveraging development finance tools alongside traditional assistance is essential to tackling the immense challenges fragile, conflict and violence-affected states face in a sustainable manner. However, these settings pose unique risks and demand a coordinated, strategic approach. Too often, these

risks lead DFIs to avoid projects in fragile states altogether. The reprioritization described in this Roadmap demonstrates the USG's commitment to preventing the outbreak, escalation, or recurrence of armed conflict and violence.

In the Fragile States Approach annex to this strategy, DFC outlines the core principles it will uphold when working in fragile, conflict and violence-affected countries and steps it will take to operationalize those principles (Annex A).

IMPACT QUOTIENT (IQ)

The creation of **IQ**, a modernized development impact measurement tool, was directed by the BUILD Act. IQ supports DFC in its mission to finance solutions to the most critical challenges facing the developing world today. DFC uses IQ to:

- Inform decisions to support projects;
- Track development impact of projects over time;
- Report development outcomes to key stakeholders;
- Use findings to inform future projects and maximize future projects.

A team of DFC economists and social and environmental policy analysts implement IQ to provide an objective and systematic assessment of potential and current projects. This team also analyzes data on expected and actual impact to further calibrate the tool and guide future investment decisions. IQ enables DFC to classify projects into three categories: highly developmental, developmental, and indeterminate and evaluates

projects against metrics across the following three development pillars³:

- **Growth:** Contributes to economic growth through infrastructure improvements, contribution to local income, trade benefits to the local economy, and job creation.
- **Inclusion:** Advances inclusion by providing products or services, diversified workforces, and inclusive supply chains that benefit underrepresented groups including low-income populations, smallholder farmers, young adults, women and women-owned enterprises, people with disabilities, indigenous peoples, refugees, and ethnic or religious minorities.
- **Innovation:** Supports innovation through the advancement of new products or services, the use of innovative financial structures to mobilize private capital, knowledge or technology transfer, and environmental sustainability.

GUIDING PRINCIPLES

While DFC's focus on projects in LICs and LMICs is consistent with its statutory mandate, additional strategic choices and operational improvements

are required to maximize development impact. DFC will apply the following principles to guide these decisions and reforms:



Proactive: Actively seek out new clients and deals that offer development impact.



Developmental: Focus on less developed countries and aim to maximize developmental impact across the portfolio.



Collaborative: Promote greater intra- and inter-agency collaboration, as well as DFI and IFI collaboration, to ensure a coordinated approach to planning, investment, and monitoring and evaluation activities, while also expanding relationships with private investors and social sector development actors.



Risk-Tolerant: Be willing to alter gating criteria for considering a broader array of potential projects in less developed countries.



Innovative: Seek out innovative blended financing tools, methods, and partnerships to overcome persistent barriers to private investment in developing contexts.



Transparent: Provide public transparency regarding DFC's investment portfolio and solicit ongoing feedback from the private sector and the development community.

DEVELOPMENTAL THEMES

DFC seeks to advance several development themes that cut across each of the targeted priority Development Sectors. DFC is prioritizing seven cross-cutting themes including: Innovation Across the Development Finance Lifecycle; Women's Economic

Empowerment; Financial Systems Strengthening; Sustainable Job Creation; Protecting Workers; Bolstering Manufacturing and Global Supply Chains, and Empowering U.S. and Local Businesses.

Cross-Cutting Development Goals

By FY 2025, across all sectors DFC aims to reach 12 million women and 6 million marginalized individuals, support the creation of 100 thousand new host-country jobs, and elevate innovation and technology across 50 percent of DFC's portfolio. In addition, DFC aims to add at least 15 new clients to DFC's overall client base each year and work towards a goal of at least 30 percent of clients being local or regional companies.

INNOVATION ACROSS THE DEVELOPMENT FINANCE LIFECYCLE

Innovation is one of the primary catalysts of human and economic development. In some cases, innovation provides less developed countries the opportunity to bypass traditional technologies and stages that the industrialized world relied upon for its development. For example, throughout sub-Saharan Africa, many people never owned a land-based telephone line, yet today, there are more mobile phones in Africa than there are people. To maximize development impact, DFIs are well-positioned to embrace innovative technologies and business models as both an operational imperative and a desired feature of their portfolios. DFIs are well-positioned to help introduce tools and technologies that may already have been tested elsewhere.

DFC will strive to invest in transformative technologies and incorporate innovation into each phase of the development finance lifecycle, from project identification to evaluation. Such innovation might be as basic as supporting an infrastructure project that may be the first ever publicly tendered project in a country (building local capacity or introducing

innovation that is already widely deployed elsewhere). It might include DFC supporting a transaction that deploys cutting edge technology developed in the United States. DFC also will seek out more creative ways to source projects and to pioneer creative financing models that allow it to take on technology risk while ensuring that such risks do not translate to the host country. By FY 2025, DFC aims to elevate innovation and technology across 50 percent of DFC's portfolio.

To maximize development impact, DFIs are well-positioned to embrace innovative technologies and business models as both an operational imperative and a desired feature of their portfolios.

WOMEN'S ECONOMIC EMPOWERMENT

Empowering women has far-reaching social and economic benefits. Studies show that eliminating gender disparities in employment, wages, and credit would add an additional \$12 to \$28 trillion to the global GDP by 2025⁴. Providing women with more control over their income and assets not only provides them with greater economic opportunity and agency, but also improves the lives of those around them. When women earn a competitive income, they spend the vast majority on food, healthcare, and education, benefiting their families and their communities.

DFC's **2X Women's Initiative** is committed to empowering women economically and unlocking the multi-trillion dollar opportunity that women represent. 2X invests in projects that are owned by women, managed by women, or provide a service that benefits women. DFC is committed to catalyzing \$6 billion of private sector investment in global women's economic empowerment through its 2X Initiative over the next three years, advancing the broader Woman's Global Development and Prosperity Initiative. By 2025, DFC aims to reach 12 million women. DFC prioritizes addressing challenges women face and alleviating gender barriers across all development sectors by:

- Providing financing to women entrepreneurs and women-owned small businesses that would otherwise be cut off from the financial system;
- Integrating an intentional investment strategy to support women's economic empowerment; and
- Investing in projects that provide a service that benefits women.

By ingraining women's empowerment into project sourcing and evaluation and looking for opportunities to address structural constraints to women's empowerment through DFC transactions, DFC is

enabling economies to realize the multiplier effect of women's participation in the economy.

Gender Lens Investment Strategy

A critical component of the 2X Women's Initiative is incorporating a gender lens throughout the investment process across DFC. This approach enables DFC Investment Officers to promote women's economic empowerment and consider gender equity through an intentional investment strategy applied across all transactions. The 2X Managing Director maintains a seat on the Investment Committee to ensure that a gender lens investment strategy is considered and applied for all transactions, and the 2X Office offers continual training opportunities for DFC staff and clients on gender lens investing. Additionally, gender and women's empowerment specifically are a key consideration when scoring a project's development impact under the IQ's Inclusion Pillar. For example, DFC measures and scores a project's benefits to female customers, employees, and/or women-owned or led enterprises. The IQ Score also attempts to capture (and encourage) exemplary workforce policies that advance gender equity, such as women's advancement in the workplace through formal career advancement programs and/or through family-friendly employment benefits. Additionally, the IQ framework considers a company's inclusive governance structure that promotes gender-diverse perspectives in decision-making by measuring female representation in senior management, the board of directors, and/or investment committees.

FINANCIAL SYSTEMS STRENGTHENING

A strong financial system is critical to building wealth, mobilizing private capital, and driving inclusive economic growth. Yet, in the developing world, roughly 2.5 billion adults do not have a bank account, and 200 million businesses lack access to credit⁹. DFC will continue to work in countries with strong investment climates to attract international capital that will advance development objectives. However, DFC also will work to increase access to finance and bring liquidity to markets to create a better environment for private-sector investment. Across DFC's portfolio, financial system strengthening efforts may:

- Utilize technical and assistance to offer training in risk-based balance sheet analysis to reduce dependence on collateral and expand the pool of eligible borrowers;
- Fund the application of digital technology and mobile payments to expand market access;
- Utilize "Know Your Customer" policies to reduce corruption and illicit payments;
- Make bank accounts available to bring micro and small enterprises and their employees from the informal to the formal sector;
- Promote lending practices that emphasize reaching more women, youth, rural, indigenous communities, and other disadvantaged or marginalized populations;
- Use guarantees and other risk-sharing mechanisms to expand a financial institution's reach;
- Provide political risk insurance to encourage capital mobilization in higher risk countries;
- Introduce longer tenor financing, including support for infrastructure projects and residential mortgages;
- Encourage the use of investment funds, direct equity and technical assistance to support the development of innovative technologies and the expansion of start-ups;
- Identify projects that create platforms for investment that catalyze other economic activities (e.g., industrialization or agro-processing projects that also benefit the farmers who provide the inputs);
- Provide access to local currency loans to help avoid currency mismatches;
- Identify transactions that will help increase the availability of foreign currency in the local market, which facilitates additional foreign direct investment; and
- Identify projects that generate much-needed foreign currency for countries that require hard currency to engage in international trade and investment.

A strong financial system also depends on strong macroeconomic management (e.g., through ministries of finance and central banks), as well as robust and predictable laws, policies, and governance structures (e.g., adherence to international protocols on dispute resolution). For this reason, DFC will look to support projects in countries that currently have or that demonstrate a strong commitment to a well-managed, inclusive and transparent fiscal environment, as well as a reliable governance system.

SUSTAINABLE JOB CREATION

The International Labour Organization (ILO) estimates that 5.4 percent of the global population, or 188 million people, were unemployed in 2019⁶. However, this figure is deceptive. According to the ILO, an additional 120 million people are only marginally attached to the labor market and 165 million others are employed but wish to work more hours; women and youth⁷ experience high rates of unemployment; and, due to unprecedented workplace closures and working hour losses resulting from the COVID-19 pandemic, global labor underutilization and inequality is expected to increase dramatically⁸.

DFC supports sectors that lead to job creation and job resiliency and employ policies to ensure inclusivity and diversification of the workforce. To advance more sustainable job creation, DFC will explore opportunities to:

- Proactively support countries' integration in global and regional supply chains;

- Ensure that the supply chains benefit underrepresented groups including low-income populations, smallholder farmers, young adults, women and women-owned enterprises, people with disabilities, indigenous peoples, refugees, and ethnic or religious minorities;
- Identify and prioritize investments and sectors that have a strong job creation impact (both institutional and self-employed) such as agriculture or critical infrastructure projects;
- Support micro, small and medium enterprises (MSME) movement from the informal to the formal sector; and
- Improve job diversification and quality.

Delivering sustainable job creation helps makes jobs more inclusive for vulnerable populations, raises productivity, and improves the quality of livelihoods and living standards. By 2025, DFC aims to support the creation of 100 thousand new host-country jobs.

PROTECTING WORKERS

The BUILD Act and DFC's Environmental and Social Policy and Procedures (ESPP) require DFC projects to comply with the IFC Performance Standards. These include labor standards for occupational health and safety; non-discrimination; prohibitions on child labor and forced labor; freedom of association; protections for contract, migrant, or otherwise vulnerable workers; and adherence to local labor laws, which typically include minimum wage, hours of work, and regulated benefits. Encouraging private sector clients to adopt additional measures that are recognized to enhance worker protections and

benefits will augment these minimum requirements to which DFC supported projects must adhere.

The adoption of policies that enhance the protection of workers will benefit employees' lives and have been shown to improve the economic performance of companies that adopt them. Encouraging private sector support of enhanced policies that protect workers multiplies the impact of DFC's investments by improving living standards and paving the way to more prosperous and stable economies. Across all sectors and deals, DFC will encourage its private-

sector clients to provide resources for and adopt elements of supplemental worker protections conducive to the countries in which they work. Examples of elements that companies could adopt which go above the requirements of local law and the DFC's ESPP include:

- Wage parity between men and women;
- Assessing and paying living wages, especially where the minimum wage is below the national poverty line;
- Profit sharing, particularly in extractive industries;
- Expanding access to paid leave and other benefits above legal requirements;
- Strengthening occupational safety and health measures;
- Adapting work arrangements (e.g. teleworking);
- Childcare, transportation, or food subsidies;
- Skills building, training/scholarship programs, and commitments to promote from within;
- Diversity and inclusion targets, dedicated

diversity and inclusion personnel or internal committees;

- Policies to promote disability accessibility in the workplace;
- Providing healthcare access;
- Public health programs;
- Right to organize;
- Implementing employment retention measures; and
- Preventing and responding to workplace sexual harassment and gender-based violence.

DFC's ESPP outlines the ways in which the Agency monitors how DFC-supported projects are implementing requirements with respect to the rights of workers. In strengthening workers' rights of vulnerable populations, countries can foster fairer and more inclusive economies, protect citizens from potential economic shocks, which can help stabilize the security of regions (e.g., lesser migration due to lack of opportunities) and directly increases the national security of the United States.

BOLSTERING MANUFACTURING AND GLOBAL SUPPLY CHAINS

The COVID-19 pandemic has exposed weak linkages in global supply chains and required companies and governments worldwide to be more strategic about approaches to global supply chain models. In addition, the manufacturing industry has been hit particularly hard by the pandemic because employees in this industry generally are not able to telework and sometimes work in close environments. The pandemic pushed some companies to better integrate with the global economy, but also challenged DFIs to proactively prioritize financing that builds resiliency in supply chains. Now more than ever, investments in supply and value chains—including input suppliers, producers, aggregators, processors, manufacturers, distributors, and retailers—across critical sectors such as health, agriculture, energy, IT, and infrastructure, are key to helping industries battle disruptions, especially in emerging markets in LICs and LMICs.

The U.S. has a \$2.5 trillion manufacturing sector (11 percent of GDP) and is well positioned to share its expertise with developing countries without a significant risk of jeopardizing U.S. jobs. DFC support for manufacturing can create even more jobs for U.S. companies (e.g., sales of equipment, parts, components, and other inputs for manufacturing; advisory, engineering, legal and other consulting services, etc.) with those countries that are highly dependent on China for manufacturing and processing of resources.

DFC is uniquely positioned to drive the private-sector investments necessary to mitigate the economic shocks that its clients experience. DFC will continue to help companies and sectors counter shortages of essential goods, disruptions in sourcing raw materials, and the inability to meet urgent consumer

demands. Across sectors, DFC can strengthen and diversify global supply chains by:

- Investing in supply chains that expand the distribution of diagnostics, therapeutics, vaccines, and other medical supplies, products, and equipment needed to help countries respond to the health-related demands of the COVID-19 pandemic;
- Financing new transportation, logistics and infrastructure projects, to include warehousing and cold chains, needed to relocate and reorient global supply chains;
- Supporting local procurement and providing the technical assistance necessary to strengthen value chains and manage risks;
- Investing in technologies that connect the supply of and demand for equipment;
- Providing political risk insurance to mitigate risks that would hinder MSME enterprises from investing in local supply chains and increasing domestic production;
- Expanding DFC's client base to more directly impact host countries' supply chains; and
- Identifying projects and sectors to invest in that can quickly scale up manufacturing capacity, support compliance with high-value U.S. standards, and provide access to essential items in response to crises.

In proactively safeguarding supply chains, DFC advances U.S. foreign policy and national security interests, ensures that consumers have access to essential goods and helps emerging market economies meet the demands of unprecedented challenges and shocks.

EMPOWERING U.S. AND LOCAL BUSINESSES

DFC aims to promote self-reliance and sustainability within countries, while increasing opportunities for U.S. company partnerships. By FY 2025, DFC aims to strategically expand its client base by adding at least 15 new clients each year and working towards a goal of at least 30 percent of clients being local or regional companies. DFC will continue to build relationships with the U.S. private sector and other external partners that are engaged in priority Development Sectors. DFC must work hand-in-hand with the U.S. embassies, including USAID missions and other agencies at overseas posts to determine the best business development approach for the particular local market to increase the participation of both local and U.S. based private sector investments. DFC will consider the following approaches to identify new transactions and expand its client base:

- Advertise in local media, providing clear gating criteria to mitigate the risk that unqualified companies would apply for DFC support or be otherwise disappointed;
- Work with local business and trade associations, financial institutions, regional financial institutions, and more to identify potential transactions;

- Work with sovereign wealth funds and local pension funds to identify potential investments in local companies;
- Provide local currency loans and guarantees to help indigenous companies avoid currency mismatches;
- Provide technical assistance to local financial institutions to help them identify SMEs that would benefit from their support;
- Advertise and provide on-the-ground training or webinars for local companies, so they better understand DFC's tools and processes; and
- Identify equity investment opportunities in smaller firms that may not be prepared to take on additional debt.

To expand business development efforts, DFC will execute new approaches to attract a wider net of local and regional clients whilst remaining committed to prioritizing transactions that involve U.S. investors and identifying opportunities for U.S. small and medium enterprises.

DEVELOPMENT SECTORS

Maximizing the development impact of DFC's portfolio will require the Agency to identify and seek out projects that contribute to economic growth, innovation, and inclusion. To achieve this goal, DFC has identified six priority Development Sectors that

align with U.S. development and foreign policy, DFC's mission and financing capabilities, and global efforts to address the short- and long-term socioeconomic impacts of unprecedented shocks, such as the COVID-19 pandemic¹:



**TECHNOLOGY AND
INFRASTRUCTURE**



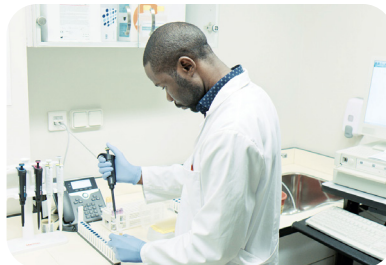
ENERGY



FINANCIAL INCLUSION



**FOOD SECURITY AND
AGRICULTURE**



HEALTH



**WATER, SANITATION,
AND HYGIENE**

¹Data points referenced in the DFC Roadmap for Impact are as of September 2020.

TECHNOLOGY AND INFRASTRUCTURE

Technology and critical infrastructure are the backbone of economic growth and trade in today's interconnected world. DFC is committed to expanding access to trusted technologies that enhance connectivity in the developing world and make business more efficient and secure. Furthermore, DFC recognizes that investments in critical infrastructure remains essential to countries' private sector engagement and global competitiveness. Roads, ports, airports, warehouse and refrigerated facilities, and other transportation and infrastructure assets are responsible for moving people and goods reliably within and across borders. Furthermore, less developed countries face the challenge of providing affordable and reliable internet services to their citizens without compromising the security of ICT networks to harmful state and non-state actors. ICT investments and digital services propel virtually all development sectors and generate new opportunities for SMEs.

The COVID-19 pandemic has magnified the importance of internet access and the consequences of the digital divide — the gap in digital accessibility within and across countries — as more public services, such as education and healthcare, shift to online platforms.

As explained in [USAID's Digital Strategy](#), four billion people do not have access to the internet globally, including roughly 93 percent of households in the least-developed nations⁹. The COVID-19 pandemic has magnified the importance of internet access and the consequences of the digital divide – the gap in digital accessibility within and across countries

– as more public services, such as education and healthcare, shift to online platforms. The gender digital divide is also a significant limitation on network infrastructure business opportunities, as social and other limitations on women's use of technology in many countries directly limits the number of potential customers. To expand the market, DFC will invest in firms with business models, service design, and marketing strategies that effectively help bridge the gender digital divide.

In many LICs and LMICs, insufficient critical infrastructure continues to stifle productivity and reinforce the cycle of poverty. In developing cities, limited transit options and affordable housing compound development challenges posed by growing populations, economic inequality, traffic congestion, and pollution. Addressing ICT and infrastructure deficiencies, deterring malign influence applied through infrastructure development, and overcoming negative disruptions to infrastructure sectors resulting from the COVID-19 pandemic will be essential to economic recovery and security in both less developed and developed countries. DFC is committed to expanding access to technologies and building the foundation for growth and prosperity through investments in infrastructure.

Focus Areas

Open, Interoperable, Reliable and Secure Digital Infrastructure and Internet Access. By making networks in emerging markets more robust and investing in partners that are building digital infrastructure (fiber, data centers, etc.) and advanced networks, DFC can help close the digital divide in the world's poorest countries. Lacking ICT infrastructure remains the primary barrier to internet access in less developed countries, especially in rural and less densely populated areas, which are often also

poorer. Digital infrastructure is required at multiple levels, from international deep-sea cables to last-mile services, and involves various technology options, including mobile networks (3G, 4G, or 5G), fiber, and more innovative delivery systems. DFC investments in this sector will include risk-based assessments and approaches to network security and supply chains. DFC's approach will demonstrate to developing countries that expanding internet networks and advancing network security are not mutually exclusive goals. While exploring opportunities to advance ICT innovation, DFC can more actively support the implementation of partner countries' broadband plans by providing technical assistance and financing for public-private partnerships that expand proven digital infrastructure.

Limited ICT infrastructure is not the only barrier to internet adoption among underserved populations, as poorer individuals often cannot afford the devices and services needed to reliably access the web. Other than boosting incomes, potential solutions to this affordability gap involve lowering the cost of internet-accessible devices, such as through mobile phones and computers, and internet services, such as data packages, Wi-Fi subscriptions, and access to a fixed line. DFC can address this gap by investing in financially inclusive products or business models that drive down these costs for end-users.

DFC is particularly interested in finding opportunities to support innovative technology companies through direct equity investments that will advance critical development outcomes.

Types of Projects: Broadband Networks, Telecommunications Towers, Data Centers, Innovative ICT Delivery Models, Internet Services, Mobile Services, Internet-Accessible Devices, E-commerce, Social Media, FinTech, Cloud-computing, Artificial Intelligence, 5G, and other Software as a service (SaaS) (workforce development training, education platforms, comms, etc).

Transforming Telecommunications in Myanmar

DFC's \$250 million in financing to Apollo Towers Myanmar supported the development of telecommunications towers throughout the Myanmar. Apollo has built nearly 2,000 towers and mobile penetration has soared from three percent a decade ago to almost 90 percent in 2019. This increased connectivity is bringing significant improvements to the way people live and work, stimulating business activity and economic growth.

Sustainable Urban Transport and Infrastructure.

By 2050, more than two-thirds of the world's population is projected to be living in cities. This growth in urban populations is expected to take place primarily in LICs and LMICs in Africa and Asia¹⁰. Urban infrastructure and housing are complex sectors, including not only the construction of physical structures but also land development, land titling, local building requirements, security of tenure, affordability, availability of utilities, and proximity to essential services such as education. DFC's investments to improve the quality of roads, railways, and other critical transportation infrastructure can support local economies, reduce transit times, improve safety, expand major commercial routes, and connect cities and borders to increase economic productivity. DFC can build off of OPIC's success in the housing sector, and continue to support projects across the housing value chain, land development, construction, mortgage finance, securitizations, and other real estate services. Furthermore, the sustainability of urban areas also include the incorporation of modern technologies and transportation to help improve the quality of life of citizens. In particular, electric technologies represent increasingly cost-competitive alternatives

to fossil-fueled vehicles, especially in countries with low electricity prices or significant renewable energy resource potential. DFC can support cities' modernization through investments in e-mobility projects, as well as public-private partnerships (PPPs) that expand the quality and reach of more traditional urban transportation infrastructure.

Types of Projects: Rapid Transit Bus Systems, Light Rail, Ride-Sharing, Integrated Transport Systems, E-Mobility, Housing Microfinance Loans, and Land Titling

Improving Cargo Shipping Logistics in sub-Saharan Africa

Financing is helping Alistair Group, a small business based in Dar es Salaam, Tanzania, introduce a more efficient system for moving cargo. Alistair operates a fleet of hundreds of trucks that serve mining, oil and gas companies, as well as global relief organizations throughout Tanzania, Zambia, the Democratic Republic of the Congo, Mozambique and South Africa. Alistair equips its trucks with GPS tracking, trains drivers extensively on safety and accident prevention, and maintains a zero-tolerance policy to bribery and corruption that often poses a hurdle to moving goods across borders. In addition to improving the quality and reliability of ground transportation across the region, the project has created hundreds of local jobs, while helping local businesses and relief organizations transport cargo.

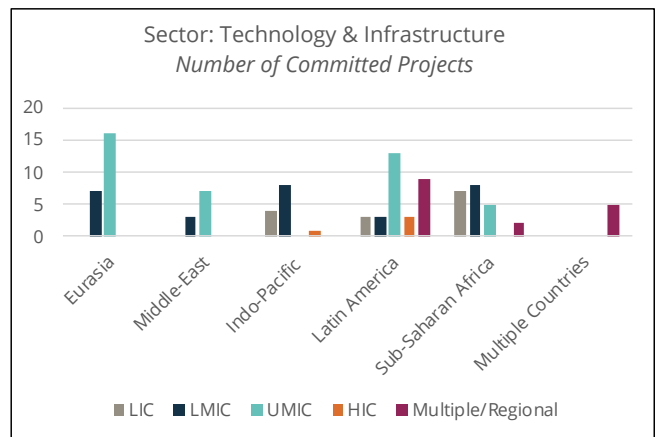
Trade and Tourism Bottlenecks. Roughly 80 percent of international trade volume is channeled through ports, making competitive port infrastructure vital asset for developing regions looking to increase

their participation in global supply chains¹¹. Similarly, airports are the gatekeepers of the tourism industry, and passable roads and railways are required to connect these economic hubs. The COVID-19 pandemic has placed enormous stress on these sectors through slowdowns in trade and travel, as well as new health and safety requirements. DFC can continue to support critical infrastructure projects in these areas by focusing on opportunities to reduce logistical bottlenecks and facilitate international trade through PPPs and investments in privately-operated facilities and services.

Types of Projects: Ports, Airports, Airlines, Roads, Railways, and Logistics and Facilitation Systems

Investment Opportunities

DFC's current active portfolio in the technology and infrastructure sector, as defined in this section of the Roadmap, including infrastructure dedicated to transportation and construction of housing and hotels, is over \$4 billion across 94 projects. As of September 2020, DFC's investments in the pipeline with a medium to high probability of commitment was valued at \$1 billion.



DFC is partnering with the private sector to invest in quality infrastructure and technology investments that are market-driven, and open and inclusive. DFC is investing in telecommunications and internet

access, value chains that connect producers of raw materials with end users, and essential infrastructure such as roads, railways, ports, and airports to strengthen connectivity and help the continent further integrate into the global economy. Through **Connect Africa**, DFC will invest over \$1 billion in Africa where there is significant opportunity for investors in critical infrastructure and ICT. Africa faces a significant shortage of critical infrastructure to meet the needs of a growing population that is increasingly living and working in urban areas, and countries that are seeking better trade and connectivity with the rest of the world. In addition to providing reliable electricity to the hundreds of millions of people who lack access, Africa needs modern hospitals, buildings, airports, roads, rail networks, and seaports.

DFC's Connect Africa Initiative

Africa requires significant investment in connectivity to forge deeper ties with the rest of the world, facilitate cross-border trade, and foster sustainable economic growth. Through Connect Africa, DFC is investing \$1 billion in telecommunications and internet access, value chains that connect producers of raw materials with end users, and essential infrastructure such as roads, railways, ports, and airports. By investing in these three key areas, DFC can strengthen connectivity and help the continent further integrate into the global economy.

DFC, in partnership with the private sector, is financing the backbone of infrastructure that will be needed for markets to transition to next generation technologies, such as 5G, in the years ahead. DFC will work with regional allies to spur further investment in Africa, the Middle East, the Indo-Pacific, Latin America and Caribbean, Europe and Eurasia to support more infrastructure development. In Latin American, DFC can help meet the demand for improved ICT assets, including new macro towers and data centers, that can be facilitated through greater private sector engagement. Furthermore, DFC can focus investments in Indo-Pacific and sub-Saharan Africa, the two largest mobile markets in the world, experiencing 30 percent average annual growth in mobile phone connections over the last two decades. For example, DFC aims to advance the USG's Indo-Pacific Economic Vision, which includes an initiative known as the Digital Connectivity and Cybersecurity Partnership that seeks to improve partner countries' digital connectivity and expand opportunities for U.S. technology exports.

With equity authority, DFC can evaluate risk differently and participate in earlier stage, more technology driven, opportunities. DFC will prioritize transactions that generate both developmental and foreign policy benefits in these regions, such as digital infrastructure projects that help prevent state actors from exerting malign influence in less developed countries.

Measuring Success: High-level Investment Targets and Development Goals

- Commit to \$5 billion in technology and critical infrastructure.
- Expand logistics and transportation infrastructure to increase regional and global connectivity through 10 major infrastructure projects in LICs, LMICs, and fragile states.
- Increase internet access for 3 million people.

Aspirational Milestones

- Increase mobile subscriptions in 10 focus countries due to DFC-supported investments.
- Increase ease of transportation in less developed countries.
- Improve finance opportunities of e-mobility projects.
- Increase access to financial services through technology.
- Increase access to affordable housing in urban areas.
- Increase sustainable job growth through jobs obtained via infrastructure projects.
- Increase use of internet apps to spur growth of commerce and industry.
- Invest in cloud computing expansion, data center businesses, or digital work facilities.

ENERGY

Access to reliable and affordable energy is inextricably linked with human and economic development. Widespread energy poverty limits the quality of life, business activity, food production, and access to healthcare and education. As demonstrated by the COVID-19 pandemic, hospitals and health clinics require stable power for ventilators and other life-saving equipment. Students depend on electricity to access the internet and study past nightfall. Water and sanitation networks use electricity to pump drinking water and sterilize waste. Meanwhile, other development sectors, such as agriculture and manufacturing, require energy-intensive inputs to expand production and, ultimately, provide food security and create jobs. As countries not only respond to the pandemic but also turn to longer-term social and economic development goals, access to modern energy should be prioritized as it is integral to countries' economic growth, inclusion, and ability to provide solutions to critical development challenges.

DFC will prioritize the achievement of “universal energy access,” as set forth in the U.S. National Security Strategy (NSS). The Agency will also work with partners to safeguard their economies through the diversification of energy sources, supplies, and routes, which will result in less volatile energy costs, lower economic risks, and relief from countries that use energy dependence as a tool for coercion. To facilitate these goals, DFC will continue to actively contribute to U.S. whole-of-government initiatives, such as Power Africa, Asia EDGE, and América Crece, and advance U.S. energy development efforts, such as the European Energy Security and Diversification Act of 2019. Building on its extensive experience in the energy sector, DFC can work to strengthen emerging energy markets and improve energy-related developmental outcomes by focusing on transactions that help expand electricity access,

diversify energy sources to promote security and development, strengthen power markets, and support emerging energy technologies.

Focus Areas

Electricity Access. According to the International Renewable Energy Agency, 860 million people worldwide do not have access to electricity¹². Close to 600 million of those without electricity live in sub-Saharan Africa, while most of the remaining population is spread across Asia, Latin America, and the Middle East. Of those without electricity access, the majority reside in rural areas out of reach of existing power transmission and distribution (T&D) infrastructure. Through the provision of technical assistance, financing, and grant-based aid, the USG's Power Africa initiative has spearheaded multi-national efforts to bring power to those in rural communities and peri-urban settlements still lacking electricity connections. In addition, the USG's Asia EDGE and América Crece initiatives provide similar assistance in the Indo-Pacific and Latin America and Caribbean regions, respectively. As an active member of each of these key USG initiatives, DFC can continue to collaborate with the interagency to unlock private capital for projects designed to expand electricity access in these regions, to help improve the quality of service to power and ensure that those who gain access to electricity can actually afford and consume it.

Although the public sector is typically responsible for T&D investments, DFC can explore opportunities to fund technical assistance for T&D upgrades and begin to support transactions involving off-grid energy solutions, such as micro- and mini-grids, that provide viable alternatives to grid connections. In addition, DFC can explore opportunities to participate in innovative private financing structures for T&D.

Types of Projects: Power Generation, Transmission and Distribution, Off-Grid Energy Solutions (e.g., Micro/Mini-Grids, Solar Home Systems), Smart Grid, Energy for Agriculture, Energy for Industrialization, Integrated Energy Companies, and Energy Storage

Energy Security and Diversification. Reducing countries' dependencies on a single energy source and energy imports from autocratic regimes lowers long-term energy costs and supports domestic energy providers, while also protecting countries' sovereignty and economic independence. There are critical developmental and foreign policy benefits from bolstering the energy security of less developed countries, as well as higher-income allies. For example, the European Energy Security and Diversification Act of 2019 aims to assist European and Eurasian countries in reducing their reliance on energy resources from countries that use energy dependence to exert undue political influence. Similar to other USG initiatives focused on improving energy security in the Middle East, Indo-Pacific, Africa, and Latin America, the policy encourages U.S. public and private sector investment in energy projects that bridge the gap between energy security requirements and commercial demand, including power generation, energy efficiency, energy storage, and other technological innovations.

In some regions, cross-border electric transmission and pipeline projects can also help close these gaps, while promoting greater regional security and economic integration. For example, in the Southern Africa region, Botswana and Namibia have enormous solar power potential, Zambia and Zimbabwe have hydropower resources, and Mozambique has gas reserves. If these countries were to exploit their energy resources and improve cross-border transmission, the entire region would benefit. It also has been estimated that West African countries could save up to \$32 billion through the efficient trading of electricity across borders¹³. Although cross-border infrastructure buildouts are complex and politically challenging, these projects can yield far-reaching development and security payoffs.

Types of Projects: Power Generation, Transmission and Distribution, Oil and Gas, Energy Storage, Energy Efficiency, Smart Grid Technologies, and Off-Grid Energy Solutions

Providing Rural Electricity Access in sub-Saharan Africa

Access to electricity in rural regions in Kenya averages 60 percent, compared with 78 percent in urban areas. DFC signed a \$20 million loan to a project in Kenya that will provide funding to purchase accounts receivables of Pay-As-You-Go X850 solar home systems for customers of d.light Limited, structured as an innovative off-balance sheet financing by U.S. company Solar Frontier Capital Ltd. The project will provide the first large-scale demonstration of an off-grid solar home system receivables financing structure. d.light Limited provides products that serve as an alternative to kerosene lamps and diesel generators and offers a pay-as-you-go model for larger solar home systems. The sales made possible through DFC's financing will provide energy access to a projected 270,000 households, or approximately 1.2 million people.

Independent Power Producers (IPPs) and Public-Private Partnerships (PPPs) in Transitioning Power Markets.

DFC and other DFIs have demonstrated repeatedly that private investment and well-designed public-private partnerships in the power sector can lower electricity costs and boost domestic generation capacity. DFC can build on these efforts by pursuing projects that involve IPPs and PPPs in countries with limited experience with these types of transactions. By targeting innovative projects in countries that have not yet made the transition to competitive energy markets, DFC can apply lessons learned from previous engagements to regions where they will have the greatest development impact. In addition, supporting public tenders for power projects increases transparency and drives down the cost of electricity, helping increase the competitiveness and growth of other industries.

Types of Projects: Power Generation, Energy Storage, and Energy Efficiency

Emerging Energy Technologies. Innovation in the energy sector has yielded new technologies with the potential to overcome challenges in emerging energy markets and speed the transition to cleaner, less expensive, and more reliable energy sources. Following technological advancements and cost reductions over the past decade, short-duration energy storage, off-grid energy solutions, smart grid, off-shore wind, floating solar, and electric vehicles have already proven their commercial viability in both developed and emerging contexts. Meanwhile, long-term energy storage, carbon capture, modular nuclear reactors, hydrogen fuel, and other breakthrough technologies are being piloted around the world and, in some cases, are projected to be commercially viable in the next few years. DFC generally supports least-cost technology options in the power generation space. DFC also can significantly expand its development impact in the energy sector through transactions that advance market penetration of newer technologies, when proven commercially viable and with proper risk mitigation including ensuring adequate regulatory

environments in less developed countries, thereby supporting developmental outcomes and paving the way for more widespread deployment.

Types of Projects: Energy Storage, Off-Grid Energy Solutions (e.g., Mini/Micro-Grids, Solar Home Systems), Smart Grid, Off-Shore Wind, Floating Solar, E-Mobility, Carbon Capture, Modular Nuclear Reactors, and Hydrogen Fuel

Three Seas Initiative

DFC is endeavoring to support projects in furtherance of energy independence in Europe and Eurasia, in line with the European Energy Diversification and Security Act (EEDSA). The Three Seas Initiative has become a significant focus of U.S. strategic engagement in Eastern and Central Europe and the Baltic nations. DFC is proactively engaging countries in the region and will advance energy independence in these predominantly former Soviet bloc countries to advance U.S. foreign policy goals as well as Congress's direction in the EEDSA.

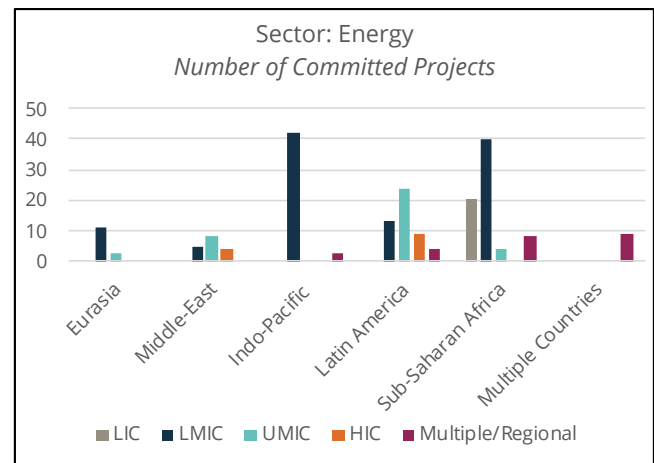
Investment Opportunities

DFC's current portfolio in the energy sector is around \$11 billion, more than one-third of the Agency's active portfolio. The energy portfolio includes but is not limited to projects focused on hydro, solar, biomass, geothermal, hydroelectric, and fossil fuel in addition to transmission and distribution, off-grid investments, and oil and gas extraction, transportation, and operations. DFC's portfolio in the energy sector spans across LICs, LMICs, UMICs, and HICs in addition to fragile states. As of September 2020, DFC's pipeline in the energy sector with a medium to high probability (50-100 percent) of commitment was valued at \$2.6 billion.

Most individuals without electricity access reside in LICs and LMICs, and DFC is committed to increasing its investments in these countries. DFC will expand its investments in systems and technologies that provide higher-level service to rural customers (e.g. solar home systems and mini-grids) to help improve electricity access and reliability.

In addition, it is critical that countries in Europe and Eurasia achieve energy independence to help them maintain their own autonomy and security, as well as stay on a positive economic growth trajectory. DFC will expand its efforts to support USG initiatives that focus investments regionally, using targeted investments to strengthen energy markets in sub-

Saharan Africa, Southeast Asia, Latin America and the Caribbean, Europe, and Eurasia. DFC will explore opportunities to finance IPP projects in countries that have not yet had a successful IPP to promote private investment in the countries' power sectors. As economies move past COVID-19, DFC will work ensure that previous gains in the sector are safeguarded. Furthermore, DFC will provide reliable and affordable power in fragile states to help stabilize countries through economic growth and jobs.



Measuring Success: High-level Investment Targets and Development Goals By 2025

- Commit \$10 billion to the energy sector.
- Increase country and regional energy security through diversified domestic power generation in 10 countries and at least two cross-border investments (transmission line or pipelines).
- Increase electricity access for at least 10 million people by 2025.

Aspirational Milestones

- Lower the electricity and/or energy costs in a country due to DFC-supported investments.
- Increase deployment of metering at end user of electricity.
- Finance or insure distribution of gas for cooking in a country where biomass and charcoal remain the primary cooking fuels.
- Finance or insure an electric vehicle company for the first time.
- Identify opportunities to support the development of the modular nuclear industry.
- Support the first competitively tendered IPPs in countries.
- Develop a mini-grid financing program.
- First-time investments in private power transmission line projects and distribution companies.
- Finance or insure energy import infrastructure and cross-border energy transactions.
- Launch one blended financing tool to advance energy sector development.
- Make ten investments in energy storage sector (including batteries and hydrogen).
- Increase DFC investments in energy sector that meet 2X criteria.

Financial Inclusion

The inability of individuals and MSMEs to access financial services and capital is a major inhibitor of social and economic development. MSMEs are significant drivers of economic growth, sources of employment and providers of critical goods and services. Many women, microenterprise owners, small businesses, rural populations, youth, religious and ethnic minorities, disabled individuals and other financially disadvantaged populations lack the documentation, collateral or access needed to open bank accounts and obtain credit. As a result, traditional financial institutions are often unable to provide services to these groups or are required to develop new risk assessment tools, such as creative balance sheet financing, assessments of digital records, and detailed questionnaires, to consider them as customers. Even with these mechanisms, high transaction costs prevent many individuals and small businesses in less developed countries from using banking services.

DFC provides market rate financing (non-concessional) to clients who have determined that private sector financing or political risk insurance is not available at sustainable terms or tenors. In some cases, DFC can work with other entities providing grants or financing at blended rates. DFC has helped individuals secure credit for housing, education, agriculture, healthcare, and other development needs, and obtain loans for MSMEs. DFC often works with monetary financial institutions, impact investment funds and local commercial lenders to reach these individuals expeditiously. By enabling individuals to start and grow businesses, financial services increase revenues and incomes, create jobs, and ultimately help communities grow. Financial institutions provide individuals with digital identities which also promote financial inclusion but also support the delivery of other critical public services. DFC will support financial investment including digital technologies and companies that provide digital solutions to reduce barriers to financial services for unbanked and

underserved populations. The introduction of these services require financial systems and technology that support responsible market conduct particularly where regulatory mechanisms are weaker.

DFC's Loan Portfolio Guarantees

DFC's [Portfolio for Impact and Innovation](#) allows companies to obtain loans up to \$10 million through a streamlined approval process. Yet, given the significant costs associated with processing direct loans, it can be difficult for DFC to justify making loans of less than \$1 million to an individual client. DFC is now able to also offer a loan portfolio guarantee product (LPG) through its Mission Transaction Unit, which will allow DFC to provide a financial institution with a guarantee for a portfolio of loans made to hundreds, if not thousands, of customers. There is an expectation of some level of default among the many borrowers under an LPG, meaning there generally is a higher subsidy cost for DFC to support these transactions. Consequently, DFC will look to collaborate with interagency partners such as USAID to help share in the cost of these transactions, as well as to provide technical assistance to increase the development impact and financial viability of each transaction under an LPG.

Focus Areas

Financing for MSMEs, Women, and Other Underserved Populations. Progress on financial inclusion has helped stimulate broad-based economic growth in both developed and developing economies, but there is still significant work to be done. About 980 million adults do not have an account, 56 percent of all unbanked adults globally¹⁴. As a result, developing countries face a considerable credit gap that prevents many small businesses and women entrepreneurs from reaching their full potential. Working with local partners and USG initiatives to source projects, DFC can continue to help close the financial services gap and drive developmental impact in this space.

Types of Projects: Individual Business Loans, Microloans, Lease-To-Own Financing, Agriculture Loans, Energy Loans, and Risk-Based Credit Analysis

Extending Credit to Low-Income Entrepreneurs in India

DFC's investment in Patamar Capital's Livelihood Impact Fund (LIF) showcases DFC's strategic commitment to financial inclusion. LIF invests in Kinara Capital, a women-owned non-bank financial institution in India providing much-needed capital to India's rural poor. Kinara Capital fills the gaps between microfinance and bank funding by providing loans of \$2,000- to \$20,000 to small- to medium-sized enterprises in India, lending for working capital and capital asset purchases. Through Kinara Capital's loans, low-income entrepreneurs can expand their businesses through the purchase of additional machinery or raw materials, leading to an increase in business income and hiring of more employees. As of the end of 2019, Kinara helped create 60,000 new jobs (21,000 held by women). Kinara's loans have allowed its SME borrowers to increase business revenue by an average of 15 percent and provide 2,000 people with their first job.

Financial Service Technologies for Underserved Populations. Financial technology (fintech) is disrupting the financial services industry and expanding access to financial services in developing economies. By lowering costs, eliminating biases, and removing procedural and geographical challenges of traditional service delivery models, digital technologies create opportunities for these previously unbanked populations. These technologies also enable businesses to enter the formal sector, increase payment rates, and reduce their cost of capital more easily. DFC is able to both finance companies that are introducing financial technologies into the market, as well as supporting its clients in their use of these technologies to better reach underserved populations. DFC can increase the use of fintech products already deployed in emerging markets, including online banking, mobile payments, alternative lending, blockchain-based systems and digital identity platforms. Of course, responsible financial practices in the country that prevent fraud and abuse are critical to making this a successful effort.

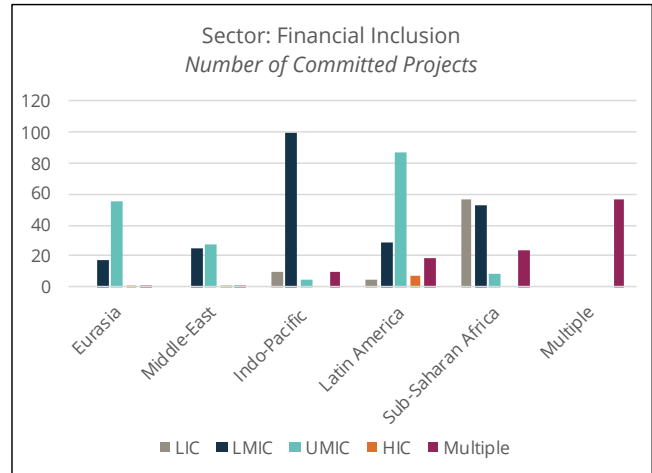
Types of Projects: Mobile Payments, Online Banking, Alternative Lending Platforms, Digital Identity Systems, Credit Data Infrastructure, and Currency Digitization

Investment Opportunities

Fifty-seven percent of DFC's active portfolio projects are in the financial sector, making up the largest share of DFC's portfolio. Combined, DFC's financial sector projects are valued at \$13.8 billion. More than half of DFC's pipeline projects with a medium or high probability of receiving financing are in the financial sector, almost all of which were focused on increased financial inclusion by targeting SMEs, women, rural businesses, ethnic or religious minorities, individuals with health issues or disabilities or other underserved populations. The pipeline includes investment funds with global reach, as well as a large concentration of projects in India, sub-Saharan Africa, and Latin America.

Virtually all unbanked adults live in developing economies, with the majority of this population coming from heavily-populated countries in the Indo-Pacific, sub-Saharan Africa, and Latin America.^{35F} A significant portion of MSMEs in emerging markets are currently without banking services, and a large concentration of these businesses are in the Indo-Pacific and Latin America.¹⁵

In addition, DFC can consider internet access and mobile device ownership rates to determine areas where financial technology solutions have the greatest commercial and developmental potential. For example, the number of total smartphone users in India alone is expected to grow from 279.2 million in 2018 to an estimated 829 million in 2022. DFC can support the distribution of financial technology in Africa and the Indo-Pacific in parallel with its efforts to expand "open access" telecommunications infrastructure and low-cost internet and mobile services.



Reforming Lending Practices and Monetary Policy in the West Bank

In the West Bank, through DFC's support for a bank, including risk-based credit analysis training delivered collaboratively through a USAID grant, the financial institution developed the capacity to assess the credit risks and balance sheets of small businesses, enabling them to provide credit to local entrepreneurs and companies who previously had limited access to capital. Women who had relied on their jewelry as collateral for small loans in the past were now able to present business plans and balance sheets to demonstrate their creditworthiness, which led to the expansion of women-owned enterprises. Employees of micro and small enterprises that were able to move from the informal to the formal sector, now had pay slips to show at the bank so that they could open bank accounts and obtain car and house loans. Impressed by the economic impact of these loans, the local monetary authority decided to adopt new policies to support small business growth in the region.

Measuring Success: High-Level Investment Targets and Development Goals by 2025

- Commit to catalyze \$6 billion directly and indirectly in 2X qualifying transactions (i.e., women-owned or women-led businesses, businesses that benefit women, or businesses that establish a credible gender strategy and clear thesis to invest in women).
- Invest \$100 million in projects that include innovations in financial technology.
- Bring 100 companies into the formal sector from the informal sector through focused and innovative financial services for MSMEs.

Aspirational Milestones

- Increase access to financing to disabled individuals, indigenous groups, or other historically marginalized populations.
- Train financial officers in risk analysis to allow balance sheet financing for SMEs, rather than reliance on collateral (assuming Central Bank regulations allow).
- Improve commercial services, industrial output or agricultural production as a result of financial services access.
- Improve regulatory structure, reduce corruption, or remove obstacles to investment as a result of DFC transaction in coordination with the Department of State and other USG agencies.
- Facilitate adoption of company policies that promote greater diversity and inclusion.
- Introduce new financial service technologies.
- Invest in projects that develop digital payment systems or banking services via mobile phones or computers.

FOOD SECURITY AND AGRICULTURE

Agricultural growth remains the most effective pathway out of poverty for the world's poorest people. It generates income and demand for locally produced goods and services, strengthens local and regional supply chains and plays a pivotal role in improving nutrition by making food and other necessities more affordable. Helping farmers earn a fair return and involving them in value-added processing helps them emerge from poverty and gives them an incentive to stop growing illicit crops that drive the global drug trade. Yet, agricultural development remains largely under-financed globally. The annual financing gap for agriculture is estimated at around \$115 billion in the 12 USG Feed the Future countries¹⁶. Among other factors, the agriculture financing gap is reinforced by perceived risks in supply chains, inconsistent and complex land titling regimes, financiers with limited agriculture related knowledge, lack of supportive infrastructure such as power irrigation and roads, and unsupportive regulations and financial infrastructure.

DFC will support private sector projects that promote a world free from hunger, malnutrition and poverty, as set forth in the Global Food Security Act, reauthorized in 2018.

DFC will support private sector projects that promote a world free from hunger, malnutrition and poverty, as set forth in the Global Food Security Act, reauthorized in 2018. DFC will continue to actively contribute to USG multiple Initiatives, such as Feed the Future, that work with the private sector to modernize and transform food systems. DFC will prioritize projects that increase the availability, access and affordability of food; improve incomes for rural communities; strengthen supply chains to link farmers to markets; and provide access to agri-inputs. DFC will also promote farmers' resilience to environmental changes; improve farm production to make communities more resilient to shocks; increase the availability and quality of post-harvest storage, especially cold-chain solutions, to reduce post-harvest losses; and increase the quantity and quality of agricultural production, especially of crops that are consumed as foodstuffs locally or regionally.

DFC will also support anti-narcotic initiatives in places like Colombia and Afghanistan by providing robust financing to encourage farmers to grow legal, sustainable crops instead of illicit alternatives. To achieve maximum impact, DFC will deliberately prioritize the quantity and quality of developmental impact of projects over their dollar size. Because the projects and markets in LICs, LMICs and fragile states are smaller, DFC will aim to do more projects with a smaller average investment size to encourage a focus on the least developed markets where DFC's dollars can have the most developmental impact.

Focus Areas

Strengthening Agriculture Supply Chains and Food Market Systems. Stronger commodity supply chains, improved post-harvest handling, and food market systems are essential to inclusive economic growth and food security. Rather than focusing its investments on subsistence farming or a single commodity, DFC will seek to catalyze private-sector investment across agricultural supply chains to efficiently link producers to service providers, aggregators, processors, packagers, and transporters, connecting farmers to markets.

Types of Projects: Production, Manufacturing, Industrialization, Servicing, Processing and Storage, Distribution, Marketing, and Transportation

Improving Supply Chain Resilience in Kenya's Fragmented Food Distribution System

In Kenya, poor infrastructure and inefficient linkages between rural farmers and urban produce vendors result in 30 to 40 percent of food being wasted. In 2020, to strengthen food security in Kenya by increasing farmers' access to markets and improving the agricultural supply chain with cold storage, DFC made its first disbursement of its \$5 million loan to Twiga Foods, Ltd. DFC's investment will empower smallholder farmers and urban produce vendors—the majority of whom are women. Since 2014, Twiga has worked to streamline Kenya's fragmented, inefficient food distribution system. The company purchases fresh produce from remote, hard-to-reach farms across the country. It then packages, stores, and distributes it to urban produce vendors, who place orders through Twiga's digital sales platform. To date, this system has connected and increased incomes for over 17,000 farmers and more than 8,000 produce vendors.

Access to Finance to Improve Agriculture-Based Livelihoods.

Access to financial services, such as local banks and microfinance, is a critical source of resilience for the agriculture sector. Insurance products promote agricultural development and protect farmers and agribusinesses from market shocks, such as the COVID-19 pandemic, which constrain commercial credit and threaten food security. DFC provides critical access to financing to improve livelihoods and incomes for poor, rural communities to allow them to buy nutritious foods, one of the most direct and lasting way to improve food security and nutrition. DFC can also invest in companies and projects that leverage fintech to help overcome structural barriers credit access and blockchain to improve commodity and crop insurance pricing. DFC can also look for opportunities to invest in projects that improve land titling systems.

Types of Projects: Microfinancing to Small Holder Farmers and Agriculture-based SME/MSME, Fintech, Blockchain, and Technical Assistance and Training to Increase Production and Connectivity

Enhancing Livelihoods of Smallholder Dairy Farmers in India

DFC committed up to \$371,000 in technical assistance to support Milk Mantra, which sources milk from more than 60,000 smallholder farmers—many of whom are women—to produce and sell dairy products in eastern India. The technical assistance is intended to enhance the impact of an approved DFC loan to the project by sharing the costs of services including farmer training, cattle health services, and a digital financial services program designed to empower women farmers.

Sustainable Natural Resource Management.

Private sector investments where properly structured can protect ecosystems and employ sustainable natural resource management practices, promote sustainable economic growth, reduce economic and environmental risks, and help communities recover more quickly from shocks. In LICs and LMICs, low-income populations are typically more dependent on natural resources, such as local water and food supplies, for their health and livelihoods. These vital resources are becoming increasingly degraded and threatened due to poor water and land use practices, increasing soil erosion, overgrazing, deforestation, and over-fishing. Degradation and misuse of these resources impairs economic growth and shrinks livelihood options. Restoring degraded resources through sustainable resource management practices can increase productivity and strengthen resilience. DFC will prioritize projects that safeguard, restore, and increase the productivity of natural resources.

Types of Projects: Sustainable Forestry, Sustainable Fisheries and Aquaculture, Land Management, Soil Management, Irrigation, Water Efficiency, and Farmer-Managed Natural Regeneration

Promoting Marine Conservation with Innovative Blue Bonds

In 2019, DFC, in coordination with The Nature Conservancy, invested \$250 million and \$100 million in political risk insurance will support “blue bonds” that bolster coastal economies in Kenya and Saint Lucia, respectively. The projects will establish long-term sources of funding for critical marine conservation activities. The project involves the restructuring of the governments’ sovereign debt and redirecting of a portion of the loan payments to fund grants and to capitalize an endowment fund for long-term funding of conservation activities with the goals of conserving and enhancing marine and coastal ecosystems, strengthening the governance and management of such ecosystems, and creating resilient ecological and human communities. The project results in millions in debt savings for the governments.

Innovative Agriculture and Supply Chain

Technologies. Mechanized farming, post-harvest storage, and manufacturing processes, and power provision underpin the agriculture sector and global commodity markets. DFC can increase productivity and promote greater economic development by leveraging existing technologies to improve production, storage and processing and supporting innovations in production methods, ranging from new crop varieties to improved manufacturing facilities, as well as technologies that create more efficient and transparent supply chains. For example, over the last decade, digital technologies have connected buyers and sellers across the globe, reduced inequalities in access to critical information and knowledge, and enabled more dynamic resource planning and management¹⁷. DFC will focus primarily on innovative technologies and business models that address market failures in less developed countries and improve productivity in growing regional or global markets.

Types of Projects: Innovating Across Crop Production, Livestock Health, Soil/Water Management, Mechanization of Manufacturing, and Digital Supply Chain Management Technology (e.g., Sourcing, Tracking, Post-harvest Storage, Market Information, Connectivity and Compliance)

Innovative Direct-to-Consumer E-Commerce Solutions Strengthen Food Value Chains in India

In 2020, DFC approved a \$20 million direct equity investment in FreshToHome, a Bangalore, India-based e-commerce company that sells fresh fish, chicken and other meats, and vegetables across major metropolitan areas in India. The investment will improve the perishable food value chain, create one of the country's largest cold chain infrastructure systems and thousands of jobs, and improve health and safety standards. FreshToHome reaches farmers using a proprietary mobile commodities exchange technology that disintermediates India's existing, archaic fish supply chain to source fish directly from over 1,500 fishermen across 125 coastal areas. The investment will support scaling of low-income and microentrepreneurs' farming operations and the expansion of the vertically integrated cold-chain storage infrastructure system developed by FreshToHome. This system eliminates the need for multiple middlemen, while ensuring the product is handled according to industry best practices and waste is kept to a fraction of the estimated industry average.

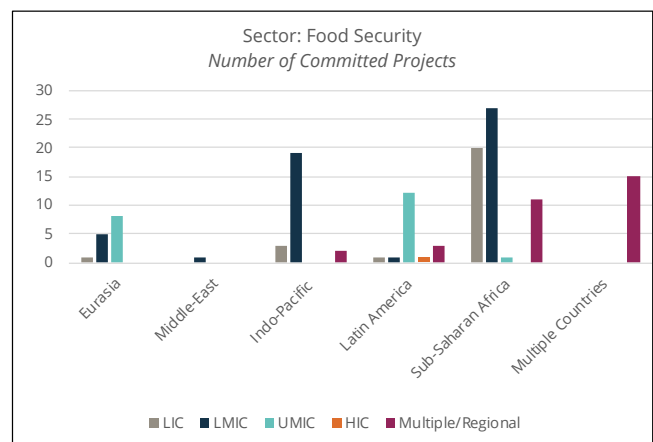
Investment Opportunities

DFC's current active portfolio exposure in the food security and agriculture sector is approximately \$2 billion. Most active DFC projects include financing for microfinance and other bank and non-bank financial institutions to support smallholder farmers, farming cooperatives and agriculture-based SMEs/MSMEs for working capital for various inputs (seeds, fertilizer, etc.), agribusiness equipment and leasing, services and agricultural training. DFC's current portfolio includes projects focused on farming and fishing, food processing and manufacturing, warehousing and storage, transportation and cold storage, food distribution, retail supermarkets, digital technologies and mobile payments, marine conservation, agricultural exports and other parts of the agriculture and commodity supply chain.

DFC's pipeline includes diverse projects including financing for ecosystem restoration, agroforestry, rural energy, agriculture SME lending, expansion of marine facilities at an existing fish farm in Vietnam, microfinance to women in rural areas, agriculture value chain financing, loans to associations, cooperatives and farmers for cassava and dairy production, seed production and distribution, expansion of a carbonated beverage bottling plant's capacity, a table grape farm and a cashew processing facility.

Most individuals without access to food and reliable supply chains reside in LICs and LMICs, and DFC will prioritize increasing its investments in these countries. In addition, DFC has identified several areas where investment opportunities exist through greater collaboration with USAID and other USG partners, as DFC plays a key role in advancing the USG's Global Food Security Act's goals. The U.S. Global Food Security Strategy and Feed the Future Initiative have identified priority countries based on a series of criteria, including level of need, potential for

agricultural-led growth, opportunities for partnership, and host government commitment.¹⁸ These countries include: Bangladesh, Ethiopia, Ghana, Guatemala, Honduras, Kenya, Mali, Nepal, Niger, Nigeria, Senegal, and Uganda.¹⁹ Through consideration of USAID country plans and broader coordination with USAID, MCC, USDA and other USG Departments and Agencies involved in agricultural development, DFC can further refine its focus areas and investment strategy in these markets. In addition, DFC will seek broadly to collaborate more closely with USG partners to improve deal sourcing, adopt risk-sharing practices, and support private sector led economic growth in these countries. Furthermore, In investing in projects that promote nutrition, food security and robust agriculture value chains, DFC will deliberately prioritize the quality of development impact and the quantity of projects over the dollar size of each investments. DFC will work on a regional level, focusing primarily on systems and technologies that improve food security and supply chains throughout the Indo-Pacific, sub-Saharan Africa, and Latin America and the Caribbean.



High-level Investment Targets and Development Goals

- Commit \$500 million over 50 projects focused on food security and agriculture supply chains.
- Commit 75 percent of food security investments in LICs, LMICs, fragile states or Feed the Future countries.
- Support at least 1 million small holder farmers.

Aspirational Milestones

- Apply a “nutrition lens” to all DFC investments.
- Promote innovative agriculture and supply chain technologies that will propel access to nutritious foods and enhance efficiency and resilience.
- Create resilience to supply chain shocks by supporting local agricultural SMEs, enhanced storage, regional supply chains and market efficiency.
- Promote resilience by supporting projects that utilize sustainable agriculture and resource management practices.
- Target local job growth by supporting projects involving locally or regionally based companies.
- Target projects that increase access to nutrition.
- Leverage a blended finance tool that support the U.S. Global Food Security Strategy.
- Enhance global security by supporting projects that help transition farmers from growing illicit to licit crops.
- Promote value addition through allied agro-industries, and consider agro-industry as a critical wealth creating sector.

HEALTH

Healthcare provision is a vital component of any society. As COVID-19 has laid bare, much of the world's healthcare infrastructure requires significant improvements to withstand current and future health risks. An estimated 400 million of the world's poorest people still lack access to essential healthcare services, reinforcing extreme poverty, premature death, or disability. Lack of healthcare access is often rooted in inadequate financial resources to pay for services. According to the World Bank, in 2015, approximately 930 million people spent more than 10 percent of their household income on health care expenditures and 210 million people spent more than 25 percent²⁰. These costs make it burdensome for the average family to secure even basic health services for their families. Meanwhile, on the supply side, most LICs and LMICS are stymied by insufficient funding for product development; distribution networks; vaccines, antibiotics or treatments that meet international standards. This funding gap limits the quantity and quality of health services and often drives up costs in poorer communities. As a result, many innovations do not obtain the capital required to scale or access frontier markets.

DFC aims to improve the world's healthcare infrastructure by boosting innovation, addressing supply chain failures, and supporting companies that can bring new vaccines and treatments to scale in developing countries. Through its **Health and Prosperity Initiative**, DFC has committed to investing \$2 billion and catalyzing \$5 billion in priority areas across the health sector over the next three years, in addition to its immediate responses to COVID-19. DFC investments will seek to complement other USG global health programs, such as President's Emergency Plan for AIDS Relief (PEPFAR), President's Malaria Initiative (PMI), and the Global Security Health Agenda, by supporting investors who struggle to attain traditional capital while serving customers at the bottom of the pyramid.

DFC aims to improve the world's healthcare infrastructure by boosting innovation, addressing supply chain failures, and supporting companies that can bring new vaccines and treatments to scale in developing countries.

Focus Areas

Resilience in Healthcare Systems and Strengthening of Supply Chains.

DFC recognizes that strong health systems are critical to ensuring the well-being of a population. DFC will continue to invest in health systems strengthening to ensure affordability, reliability, and delivery of health services so that countries are more resilient and better prepared to respond to and recover from future pandemics and crises. DFC also will prioritize projects that support communities that are vulnerable to health challenges. DFC will help transform the way global health has been financed and further involve the private sector to complement aid efforts; this approach will promote sustainable investments around preparedness and health care delivery.

Types of Projects: Supply Chains (including the production and distribution of PPE, ventilators, therapeutics, diagnostics, vaccines, and other medical supplies), Innovative Care Delivery Systems, Medical Technology and Devices; Healthcare Delivery; and Digital Health

DFC's Health and Prosperity Initiative

DFC is committed to strengthening health resilience in developing countries. Through its Health and Prosperity Initiative, the Agency is working to invest \$2 billion in projects that bolster health systems, support infrastructure development, and expand access to clean water, sanitation, and nutrition. DFC is particularly focused on projects that support the global response to the COVID-19 pandemic, especially through investment in health system capacity, including supply chains that expand the distribution of medical supplies, products, and equipment. The Agency also will prioritize projects that support countries in Africa that are particularly vulnerable to health challenges, as well as investments that advance DFC's 2X Women's Initiative by empowering women, who are often disproportionately impacted by crises like COVID-19. Under the initiative, DFC has issued a call for proposals from private sector entities seeking financing for investments in global health.

Response to the COVID-19 Pandemic.

Governments alone will be unable to solve the challenges the COVID-19 pandemic presents. DFC is working with clients to advance solutions that bolster health services and inject liquidity into developing countries. DFC is also working with other U.S. Government agencies, NGOs, foundations, the private sector, and DFIs to bring liquidity to the market, support companies impacted by the virus, and promote new investment in global health, safety, and economic sustainability. As outreach and healthcare infrastructure are under pressure and under-resourced, DFC can provide the necessary capital to ensure companies can manufacture and distribute life-saving equipment, therapeutic drugs, and vaccines without delay. Through the DFC's Health and Prosperity Initiative, DFC is working to catalyze private-sector investment in projects that strengthen health resilience in developing countries, including projects that address the challenges of COVID-19.

Types of Projects: Supply Chains (including the production and distribution of PPE, ventilators, therapeutics, diagnostics, vaccines, and other medical supplies), Healthcare Infrastructure (e.g. of Clinics, Hospitals, and Healthcare Centers), and Operations and Quality Improvement Services

Increase Manufacturing of Diagnostics, Therapeutics, and Vaccines.

In LIC and LMIC countries, weak drug supply chains lead to antibiotic inaccessibility²¹. For example, in Uganda researchers found that only 47 percent of the World Health Organization's essential medicines were procured through a centralized system, leading to widespread shortages. Improving the supply chain can greatly improve market access, saving lives in the process. DFC's investments in health system capacity will prioritize supporting the healthcare supply chain to expand the distribution of medical supplies, products, and equipment. Furthermore, new and life-saving treatments are necessary for priority diseases even as the funding gap grows for antibiotics and vaccines. This problem is further exacerbated because

companies who create these products are less likely to focus on the treatments most needed in LIC and LMIC countries. DFC will explore opportunities to partner with pharmaceutical and life science companies to ensure affordable expansion into emerging markets, particularly in LICs and LMICs. As there are often high fixed and long-term horizons resulting in high up-front costs, DFC will work with other USG agencies and partners to ensure transparency, identify opportunities to co-invest in innovation, provide technical assistance or de-risk DFC investments for antibiotics and treatments critical to LICs and LMICs.

Types of Projects: Supply Chain Investments (including the production and distribution of PPE, ventilators, therapeutics, diagnostics, vaccines, medical supplies; distribution/warehouse; delivery; and retail); Healthcare Delivery; Medical Devices; Lending to SME, Life Sciences; and Pharmaceuticals

Advance Global Health Initiatives. DFC investments will complement the Global Health Security Agenda and other USG global health programs such as PEPFAR and PMI. In particular, DFC can make critical inroads in expanding access to affordable and reliable health care services across all levels of the health system, whether through investments in projects that build hospitals and health clinics or financing funds that provide loans to clinics in vulnerable parts of the world. Access to affordable, quality primary healthcare stabilizes economies, increases the overall health of communities, and spurs development as communities can focus on other needs. DFC's role is instrumental within the fuller network of USG and Global initiatives, as DFC often lends credibility to new providers or de-risks projects in LIC/LMIC regions — laying the foundation for life-long good health for the most vulnerable populations and lowering long-term health expenditures in a county.

Types of Projects: Innovative Care Delivery Systems; Healthcare Infrastructure; Operations and Quality

Improvement Services; Maternal and Child Healthcare; Treatment of Acute malnutrition/ related diseases; Specialty Services, Diagnostics; Health Finance/Insurance; and Supply Chain

Investing in Maternal and Child Health

DFC, through the Maternal Outcomes Matter (MOMs) Initiative, is collaborating with USAID, Merck, and Credit Suisse to support investment in maternal and child health in Africa and South Asia, ensuring safe pregnancies and deliveries while laying the foundation for lifelong health. The initiative seeks to mobilize up to \$50 million to improve and expand infrastructure, services, and access to care in order to ensure healthy pregnancies and safe deliveries. In January 2020, the MOMs Initiative announced its first partnership with LifeBank, a medical distribution company that uses data and technology to help health workers discover essential medical products like blood and oxygen across Africa and connects would-be donors to their local blood banks. LifeBank medical dispatchers can respond to orders 24/7 via motorcycle in under 45 minutes. Blood is stored in refrigerated boxes with Bluetooth-enabled padlocks that only the intended recipient can open. The company has moved more than 18,000 pints between blood banks and hospitals, saving over 4,400 lives in the process.

Digital Health and Research and Development.

While digital management can increase efficiency and reduce costs, firms providing these services often receive little startup capital as DFI and healthcare financing have focused primarily on infrastructure and pharmaceuticals. Accordingly, DFC recognizes that investments in IT and Digital Health have the potential to solve the “last mile problem,” i.e., financing innovations that help get critical drugs and treatments to those who need it the most²². In addition, DFC can invest further in key innovative research and development and explore opportunities to expand investment into genomics research and development. The reason is simple: deeper analysis of genetic variation can drive advancements in

medicine. Unfortunately, poor capacity building, lack of dedicated infrastructure and insufficient expertise of healthcare professionals in LICs/LMICs makes innovation in this area incredibly challenging²³. Effective genomic research in partnership with LIC/LMIC countries can catalyze the creation of vaccines and antibiotics best suited to the communities that need it.

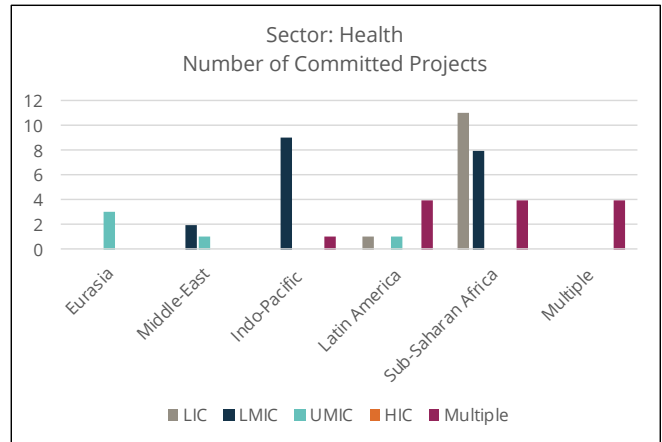
Types of Projects: Digital Health and Related IT systems; Telemedicine, Innovative Care Delivery (e.g. Drones); Online Health Sites; Mobile Healthcare Platforms; Data Science Innovations; and Research and Development.

Investment Opportunities

DFC's current portfolio exposure in health is around \$1.4 billion. A substantial number of projects are focused on social services/ humanitarian services, the result of DFC's commitment to insure humanitarian agencies (e.g., International Rescue Committee). However, the largest proportion of DFC's healthcare investment is used to finance hospitals and clinics.

As of September 2020, DFC's current healthcare pipeline suggests there is room to grow. The pipeline, of nearly \$300 million, includes COVID-19 response projects, construction of hospitals, and investments in expanding access to affordable healthcare and healthcare facilities.

As DFC uses its investment dollars to catalyze innovation, it will focus on dual market innovators. Dual market innovators create products and services that focus on all regions. Dual market innovators will offer state of the art/ high end services that attract full price paying clients, using profits from those clients to offset the more basic yet high-quality services provided to lower paying patients. The assumption behind this approach is that profits from HIC regions can subsidize the costs associated with serving LIC and LMIC markets; it also ensures



skeptical investors will receive a timely return on their investment. Moreover, DFC will invest in the most innovative companies in the above listed subsectors likely using our existing portfolio for impact program to make some of these highly developmental bets. To accelerate investment in the healthcare sector, DFC will utilize blended finance and partnerships with private foundations, NGOs, and USG entities (e.g., USAID, Center for Disease Control, National Institute of Health, etc.) to supplement its technical assistance dollars and offset the positive subsidy often required to finance riskier, developmental projects.

Measuring Success: High-level Investment Targets and Development Goals by 2025

- Commit to \$3 billion and catalyze \$6 billion more from the private sector in priority areas²⁴.
- Increase access to health care facilities by supporting 10 new hospitals and health clinics in LICs, LMICs, and underserved communities in UMICs.
- Provide healthcare services to at least 2 million people.

Aspirational Milestones

- Increase of access to new and life-saving treatments for priority diseases.
- Increase the number of patient consultations, procedures and surgeries conducted.
- Improve research related to critical drugs and treatments.
- Increase the number of projects that align with our sub-sector focus (digital/IT, pharmaceuticals/life sciences etc.).
- Increase the dollar amount mobilized for healthcare related projects in partnership with 1) USG; 2) private sector; 3 foundations/NGOs.
- Increase the number of healthcare related projects with 2X impact and effects on girls and women (e.g. declining pregnancy mortality rates) where available.

WATER, SANITATION, AND HYGIENE

The COVID-19 pandemic, rapid population growth, poor waste management capacity, and pollution pose mounting challenges for less developed countries to address the water and sanitation issues. Today, roughly 2.2 billion people globally do not have access to safely managed drinking water and over 4.2 billion people lack access to safely managed sanitation facilities, such as toilets or latrines. 40 percent of the world's population, or 3 billion people, do not have a handwashing facility with water and soap at home, including nearly 75 percent of people in less developed countries²⁵. Inadequate WASH resources expose individuals to greater health risks and healthcare costs, while also affecting countries political and economic stability, agriculture and food security. Water and sanitation services are also essential to the operations of modern economies. With 66 percent of the global population expected to be living in cities by 2050, investments in water and sanitation services are essential to maximizing productivity and economic outputs in these cities.

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The USG Global Water Strategy prioritizes access to safe drinking water and sanitation, improved hygiene practices, water resources management, cooperation on shared waters, and stronger water governance and financing. DFC will focus on projects with commercially-oriented service providers with efficient revenue generation and moderate creditworthiness.

Currently, most of these opportunities are in urban areas, with large scale operations. These projects are likely to be highly developmental, based on the DFC's current portfolio in the WASH sector. DFC is generally constrained from directly financing publicly-owned water utilities and will, therefore, explore PPPs, private tenders and indirect support of water projects through financing facilities or sector-specific or multi-sectoral funds. The Agency can mobilize private capital to support development efforts by facilitating PPPs or private tenders with utilities interested in engaging with the private sector. This may include backing bankable water projects that supply commercial and industrial customers, incorporate sewerage, fecal sludge or wastewater treatment, or promote water efficiency and efficient operations.

DFC will continue to mobilize private sector investments in water, sanitation, and hygiene infrastructure, improvements in service provider performance, and financing facilities that leverage domestic private capital and public funds in order to create more resilient communities.

Focus Areas

Access to Safe Drinking Water. In some cases, PPPs and private tenders can help state operators provide clean water more quickly and efficiently. In these instances, DFC can provide financing for water infrastructure systems, including desalination plants, water treatment facilities, pipelines, and water storage. DFC can also support the provision of non-utility water services, such as bottling and vending machines, that bring drinking water to underserved populations in innovative ways. In addition, there may be opportunities for DFC to help mitigate intranational or international disputes related to water resources by providing irrigation resources or

introducing wastewater management technologies. All DFC water projects are strenuously planned and monitored to ensure they meet U.S. water standards.

Types of Projects: Desalination, Water Treatment, Pipelines, Water Storage, Bottling, and Vending Machines

Expanding Access to Clean Water in El Salvador

El Salvador faces chronic water shortages resulting from delayed and insufficient investment in infrastructure. The COVID-19 pandemic has exacerbated these challenges, with stay-at-home orders making it harder to travel to a source of clean water, even as hand washing and sanitation became more critical. DFC's financing to Azure Source Capital, a special lending vehicle, is supporting loans to small cities and rural communities for investment in new and rehabilitated water pumps, pipelines, and storage tanks. Azure aims to improve water supply for 300,000 people and is combining financial support with training so local residents can operate their own water systems. Additional emergency projects Azure adopted in response to the COVID-19 pandemic have provided support to help restore water service to about 10,000 families and 11 community and municipal water service providers. Catholic Relief Services and impact investor Total Impact Capital also are sponsors of the project.

Water for Livelihoods. Water is a critical input to other sectors related to economic development. In particular, the food sector, which is the largest income-generating industry for the base of the pyramid, relies on water resources for agricultural production. DFC can help boost economic development through water projects that are related to the food sector, including irrigation systems, livestock operations, agribusiness water treatment and storage, fisheries and aquaculture projects. DFC can also support the introduction of new technologies that improve water management for agricultural use, such as water measurement and drought prediction tools. Work that DFC supports in terms of clean marine environments are also notable as critical to livelihoods DFC can identify projects in these areas through coordination with global initiatives like Securing Water for Food, Feed the Future, and Powering Agriculture and cooperation with entities including Water.org, the Nature Conservancy and Water Equity. Manufacturing, energy, and other commercial and industry development all require reliable water services both for their operations and employees. Finally, water-efficient appliances, water meters and housing-related water systems also present opportunities for DFC investment.

Types of Projects: Irrigation, Water Efficiency, Commercial and Industrial Development, Pipelines, and Water Storage

Sanitation and Hygiene Services. Lack of sanitation and poor hygiene contribute to the transmission of deadly diseases and exposes individuals to preventable health risks. DFC can explore opportunities to invest in commercial sanitation technologies and incorporate sanitation and hygiene into bankable projects in other development sectors. For example, inadequate sanitation is pervasive in healthcare facilities in less developed countries, where more than 15 percent of patients develop a new infection during their stay due in part to limited water and sanitation services.²⁶ More broadly, in the COVID-19 era, commercial and industrial facilities will require improved sanitation and hygiene facilities to protect their employees and fight the spread of the disease. DFC has potential to improve water access in its healthcare, housing, industrial and commercial projects.

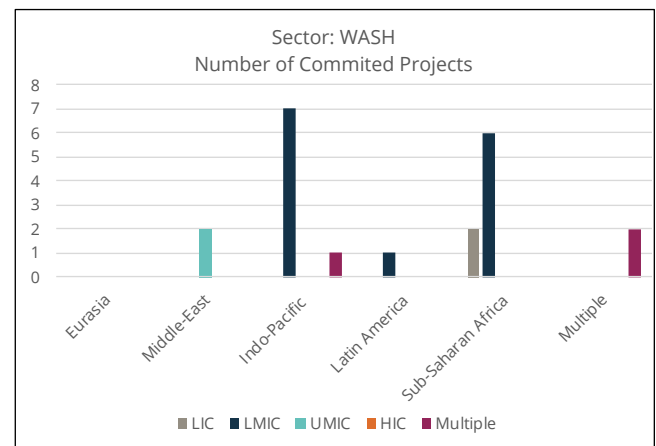
Types of Projects: Sanitation and Hygiene Facilities, Sanitation and Hygiene Technologies, Hospitals and Healthcare Clinics, Schools, and Commercial and Industrial Development

Water Resources Management. If current population growth, water use, and climate trends continue, estimates suggest that the world will face a 40 percent shortfall between forecasted water demand and available supply of water by 2030.²⁷ Through its Oceans and Plastics Initiative and related investments in pollution remediation, waste management, water efficiency technologies, and water conservation, DFC can help countries cope with rising pressures on water resources.

Types of Projects: Pollution Remediation, Water Efficiency, Waste Management (e.g., Recycling, Solid Waste Management), Nature-Based Water Solutions (e.g., Wetlands Restoration, Infiltration Ponds), and Water Treatment, Desalination

Investment Opportunities

DFC's active portfolio consists of nearly \$500 million of water, sanitation, and hygiene investments, contributing primarily to projects located in LICs/LMICs in the Indo-Pacific, Africa, and Latin America regions. These projects involve direct financing of infrastructure, such as desalination plants, as well as indirect support of water projects through financial intermediaries that are lending to water development initiatives.



DFC's pipeline in the WASH sector, as of September 2020, reflects investments mainly in Africa and the Indo-Pacific region. DFC's investment support for these projects would be around \$435 million; however, it is important to note that only portions of some agricultural or MSME funds, which have a broader focus, are likely to be allocated to projects that are specifically water or sanitation related.

As part of its Global Water Strategy, the USG identified high-priority countries where needs and opportunities for water development are greatest and where engagement can best protect U.S. national security interests. These countries include: Afghanistan, Democratic Republic of the Congo, Ethiopia, Ghana, Haiti, India, Indonesia, Jordan, Kenya, Lebanon, Liberia, Madagascar, Mali, Mozambique, Nigeria, Nepal, Senegal, South Sudan, Tanzania, and Uganda.²⁸ The USAID Water and Development Plan

includes summary overviews of each high-priority country plan. Through consideration of country plans and broader coordination with USAID, MCC, and other USG Departments and agencies involved in water and sanitation development, DFC can further refine its focus areas and investment strategy in these markets.

DFC aims to leverage and internationalize U.S. domestic water sector knowledge and approaches when appropriate, and where such internationalization might serve as a foundation for DFC's efforts. For example, DFC may explore technical assistance collaborations with the U.S. Environmental Protection Agency (EPA) to help emerging economies adapt elements of U.S. water infrastructure finance mechanisms. Internationalization of the U.S. State Revolving Fund and federal loan programs, designed for financing WASH infrastructure, could support DFC investment pathways by helping emerging

economies establish effective and sustainable financing mechanisms. Additionally, DFC may explore opportunities to collaborate with EPA on water reuse technical assistance.

In narrowing down target markets for water-related projects, DFC will also weigh the potential for private investment. Countries that are already moving toward some level of privatization in the water sector, or that are open to diversification of water and sanitation systems, are more likely to solicit private sector engagement. For example, Algeria has welcomed private sector investment in desalination projects, and Jordan has permitted private investment in a water distribution system. Countries where the private sector is actively developing new water-related technologies or water efficiency projects and countries focused on water scarcity or water pollution are likely to present compelling investment opportunities.

Measuring Success: High-level Investment Targets and Development Goals by 2025

- Commit to at least 25 WASH projects in LICs and LMICs.
- Commit to at least \$250 million in WASH projects globally.
- Increase access to reliable, potable water for at least 1 million customers through financing of desalination, potable water, water utilities, or other clean water projects.

Aspirational Milestones

- Improve the quality of drinking water.
- Improve hygiene and sanitation to increase the number of girls receiving an education because they are not needed for water collection or because improved hygiene and sanitation makes attending easier.
- Support the development of additional MSMEs owned or managed by women which are possible as a result of water accessibility.
- Save water through water efficient or water measurement technologies.

CAPABILITIES AND RESOURCES

Achieving DFC's investment targets and development goals will require the Agency to build or acquire capabilities and resources in several areas. These requirements include some sector-specific needs; however, they are primarily DFC-wide.

In recent years, OPIC has made commitments totaling approximately \$4 billion of exposure per year using between \$22 and \$24 million of subsidy.

The identification of capability and resource requirements involved consideration of existing operational constraints that could limit DFC's development impact if left unaddressed. Several of these constraints could be mitigated in part by improving internal operations and external coordination in a manner that brings the entire suite of USG development capabilities to bear. Others will require more fundamental shifts in how DFC and the USG approach strategic, budgetary, and risk management decisions. To address these constraints and better enable the execution of the Roadmap, DFC will prioritize the following mission-critical capabilities: Internal Collaboration; Interagency Coordination; Business Development; Financial Innovation; and Monitoring and Evaluation.

The following constraints are identified:

Limited staff. Relative to some DFIs and IFIs, DFC has a small and centralized workforce. DFC currently has less than 500 employees, and roughly 98 percent of the Agency's staff are based out of its Washington, D.C. headquarters. As a reference, the closest DFI in exposure has roughly 4x as many staff and half the exposure as DFC; their staff is predominantly located in LICs and LMICs. However, DFC is in the

process of increasing the count of staff overseas to ten (to be placed in Europe, Africa and the Indo-Pacific region) which will allow DFC to leverage new regional footprints.

Small client base. Due to limited bandwidth, the majority of OPIC's projects were with the same clients. Because OPIC exclusively provided financing for transactions with some U.S. nexus, DFC did not inherit many legacy relationships with active foreign partners or local companies in developing countries. This limits DFC's ability to support a dynamic local business sector. Local firms create innovations in response to their communities' needs, foster tax generation, strengthen local supply chains and advocate for changes in support of small businesses. DFC's historically small, domestic client base unnecessarily caps the breadth and quality of projects in its pipeline, limiting the Agency's ability to engage in regions and sectors where existing clients do not have a footprint.

Overlapping development-related coordination duties. DFC's CDO is responsible for ensuring that the Agency meets its development mandate and leading development-related coordination with other U.S. development agencies. However, DFC's coordination efforts currently span multiple offices outside of the CDO, including the Office of Development Policy (ODP) (development impact evaluation, monitoring and evaluation), Office of Development Credit (ODC) (coordination with USAID missions), and Office of Strategic Initiatives (OSI) (business development). Although specific coordination duties vary across these units, the diffusion of DFC's development-related coordination activities has the potential to create inconsistent and/or duplicative processes and objectives in the absence of more formal reporting lanes and policies. Improvements to internal coordination will need to be managed going forward.

Limited Insight into Development Impact at the Portfolio Level. Historically, OPIC relied on self-reporting from clients and site visits to a subset of its active projects to evaluate its development impact. To operationalize DFC's increased emphasis on development outcomes, the Agency will need to significantly bolster its M&E capabilities. Generating more detailed and precise ex ante data on projects' development impact will depend on improvements to, and related increased funding for the quality and frequency of DFC's data collection and reporting processes.

Limited subsidy allocation. Under the Federal Credit Reform Act, DFC investments are scored using a subsidy model, which assigns a subsidy cost to each transaction based on the estimated cost to the government of extending or guaranteeing credit. The subsidy cost is what U.S. agencies must pay to access coverage of the transaction from the U.S. Treasury (like the premium paid for an insurance policy). For FY 2020, DFC was appropriated \$150 million of budget authority for subsidy for equity financing and \$30 million for subsidy debt financing and technical assistance. Based on historical subsidy costs for OPIC and DCA, this budget severely limits DFC's ability to invest in developmental projects. In recent years, OPIC has made commitments totaling approximately \$4 billion of exposure per year using between \$22 and \$24 million of subsidy. By comparison, USAID's DCA typically required more subsidy per dollar of exposure due to the nature of its investments in less developed countries. In FY 2019, DCA had roughly \$414 million of exposure on \$935 million of potential credit mobilized utilizing \$15 million in subsidy. Therefore, the combined subsidy costs from OPIC and DCA in previous years are already greater than DFC's FY 2020 subsidy allocation, leaving little room for the Agency to shift its focus to projects less developed countries. Additionally, DFC's subsidy constraints have been exacerbated by the COVID-19 pandemic, which has increased credit risks across the board.

Given DFC's limited appropriation for subsidy to support higher risk transactions, there is a limit to how many projects DFC can support in LICs and LMICs. Often, when transactions are priced in such a way as to reduce or eliminate the subsidy cost, the burden of those increased fees can end up being passed on to vulnerable populations. The internal "competition" for the limited available subsidy for transactions can create a disincentive for DFC business lines to invest their time in pursuing transactions in LICs and LMICs. In addition, with a \$50 million transfer limit from USAID and the State Department, DFC is further constrained from supporting a large number of transactions in LICs and LMICs that USAID and State may wish to prioritize with their own resources. To address this issue and ensure compliance with the BUILD Act's direction to prioritize support for transactions in LICs and LMICs, additional appropriations are required and have been requested for FY 2021 and FY 2022.

Limited Framework to Pursue Riskier Deals. Riskier projects in LICs and LMICs often require more time and resources to develop since they have a high subsidy cost, are difficult to underwrite and are hard to monitor and evaluate. To address this constraint, DFC must develop further incentives, resources, and risk appetite to drive deals in LICs and LMICs in addition to coordinating with the interagency.

Limited Resources to Finance Local Currency Loans. DFIs are increasingly using local currency financing to help developing countries reduce unsustainable hard currency debt burdens and lower foreign exchange risk for their partners. Since local businesses in developing countries often don't have access to a steady stream of foreign currency, currency hedging instruments are either prohibitively expensive or simply unavailable given the high likelihood that their local currency will depreciate against the dollar over time.

Unlike its predecessor, DFC is authorized to make local currency loans and guarantees to non-U.S.

partners when there is a strategic policy rationale for doing so, making local currency solutions a more important component of the Agency's toolkit. However, all local currency lending requires Board approval regardless of the size of the transaction. This requirement can slow down the speed of even small transactions, which tend to be more common in LICs and LMICs. Local currency lending also has a high subsidy cost given that the USG is assuming foreign currency depreciation risk over

an extended period of time instead of passing that risk on to the customer. DFC has a limited history with local currency financing and does not have adequate funding to support local currency lending at scale. Solving this issue in a way that will make U.S. investment more competitive and local investments more developmentally sustainable will require additional appropriations. Even the development of new currency hedging instruments will have a high cost- both in time and expert resources.

INTERNAL COLLABORATION

The CDO office will work with OSI and the business lines to drive new deal flow in priority sectors, improve internal business processes, and ensure that all internal and external partners are working to achieve DFC's development goals. The CDO, in

consultation with OSI, the business lines, and the CEO, will designate an Agency lead to coordinate development efforts for each sector and thematic area to drive strategic DFC coordination and collaboration forward.

INTERAGENCY COORDINATION

DFC will help facilitate a more holistic approach to the USG's development activities, from policy and planning initiatives to project development and M&E, through ongoing coordination with other USG Departments and agencies. DFC will seek to establish more formal relationships with other USG Departments and agencies, when relevant, to ensure that there is greater cross-fertilization on development initiatives. These efforts will include long-term, bi-directional detail programs that enable agencies to share their expertise and develop a deeper understanding of the tools that each agency offers. For example, DFC is in the process of implementing a Foreign Service Development Finance Fellows program, in coordination with USAID and State, which will bring USAID and State Foreign Service Officers to DFC for a long-term assignment and training to prepare them to support DFC deal origination while positioned in the field at a post of strategic importance.

DFC currently relies heavily on the global footprint of U.S. embassies to help originate deals and monitor projects. DFC coordinates with the Departments of State and Commerce, as well as USAID, to ensure that Embassy Deal Teams include USAID's designated DFC liaisons at each overseas USAID mission, to compensate for DFC's limited presence in the field.

Development Finance Coordination Group (DFCG). DFC's DFCG is an interagency technical group consisted of 16 USG Departments and Agencies that has the goal of helping DFC and the USG: (1) operationalize interagency tools designed to increase the quantity and quality of USG-backed development investments and (2) provide input and identify opportunities for collaboration on DFC's Development and Sectoral Strategies (Appendix B).

Development Advisory Council (DAC). DFC's DAC, established under the BUILD Act, is charged with providing the Board with guidance on how DFC can best comply with its development mandate. In this capacity, the DAC will provide the Board and the Agency with advice regarding the execution of DFC's Roadmap for Impact, including implementation challenges and opportunities. The DAC comprises nine members who broadly represent non-governmental organizations, think tanks, advocacy organizations, foundations, and other institutions engaged in international development (Appendix C).

Interagency and other ad hoc Field Presence. DFC currently relies heavily on the global footprint of U.S. embassies to help originate deals and monitor projects. DFC coordinates with the Departments of State and Commerce, as well as USAID, to ensure that Embassy Deal Teams include USAID's designated DFC liaisons at each overseas USAID mission, to compensate for DFC's limited presence in the field. Under this arrangement, DFC will solicit the support of U.S. embassy personnel to build relationships with local companies and identify potential investment opportunities. The rollout of this model involves: (1) educating and training embassy teams on DFC's products and eligibility criteria; (2) implementing a process to share information when a deal is identified; (3) tracking deals from lead to project

approval; and (4) reporting on the success of leads to create a positive feedback loop.

In addition, the Department of State has provided funding to support a limited overseas presence of DFC contractor personnel in Africa to help support DFC's business development efforts. DFC is looking at ways to replicate this model to ensure that individuals with appropriate expertise are both sourcing and screening DFC-supported transactions.

Interagency Regional Briefings. DFC coordinates regular Assistant Secretary/Assistant Administrator-level briefings with the State Department and USAID to discuss DFC's deal pipeline and potential areas of collaboration. DFC utilizes the briefings to discuss the forecasted developmental impact of its portfolio, opportunities for State and USAID officers overseas to help advance DFC's priorities, and solutions to development and foreign policy challenges in markets where DFC is considering investments. DFC also participates in the regional deal team meetings hosted by the Department of Commerce.

Education and Training Sessions. DFC has developed a series of learning modules, online tools, and developmental details to teach other USG agencies about DFC products and services. These materials are available for re-use by internal DFC staff in onboarding and training.

Trade Coordination. DFC will consider how it might seek to leverage and reinforce U.S. free trade agreements (FTAs) as pathways for catalyzing investment in specific sectors. Among other approaches, DFC will work with the USG interagency (the Office of the United States Trade Representative Commerce, State, Treasury, EPA and others) to explore and identify opportunities during development and implementation of FTAs. DFC will continue to engage in the Trade Promotion Coordinating Committee Trade Officer training program and in training embassy deal team through DC Central.

BUSINESS DEVELOPMENT

CDO will assume an active role in identifying and building relationships with the private sector and other external partners that are engaged in DFC's priority Development Sectors. The CDO's relationship management activities will be complementary to existing business development efforts, focusing primarily on partnership opportunities in less developed countries that align with USG development and foreign policy goals and where DFC's existing networks are limited. DFC will enhance its collaboration with USAID with respect to business development, as set forth in the BUILD Act.

Private Sector. The BUILD Act provides DFC with additional operational flexibilities that impact the scope of its business development activities, including the ability to work with non-US partners, offer local currency loans, and provide equity financing. Although DFC will maintain a preference for U.S. investments, these new requirements and tools enable the Agency to engage with local businesses and international companies who want to invest in LICs and LMICS. A key driver of DFC's Roadmap for Impact's success will be the ability to increase business development in host countries and with international investors.

DFC aims to expand and diversify DFC's client base by adding 15 new clients each year and targeting 30 percent of all clients to be local or regionally based.

DFC remains committed to prioritizing transactions that involve U.S. investors, with a renewed focus on identifying opportunities for U.S. small and

medium enterprises. In addition to prioritizing work with U.S. investors, DFC will seek out relationships with local companies in less developed countries, highly developmental partners with innovative product offerings and business models, and foreign companies that align with DFC's development goals and are active in markets where U.S. companies do not have a significant presence or competitive potential.

New tools could bring an influx of clients, which would require DFC to scale up its capacity to review proposals and weed out projects not eligible for DFC support. DFC could use field staff from other USG agencies to help screen potential investments originating in foreign countries.

DFC also continues to explore options for increasing its overseas presence in order to help identify viable deal prospects, cultivate new business relationships, and to help train U.S. embassy employees worldwide on the use of DFC tools.

Public Outreach. DFC will take a more proactive approach to educating private companies and the development community, which includes local civil society organizations, in multiple languages on its available tools, selection criteria, and processes. New tools could bring an influx of clients, which would require DFC to scale up its capacity to review proposals and weed out projects not eligible for DFC support. DFC could use field staff from other USG agencies to help screen potential investments

originating in foreign countries. In addition, one of the DFC's goals is to engage and support private sector entities, with limited history or experience in investing in emerging markets, to explore financing transactions in less-developed countries. CDO will convene sessions to introduce both U.S. and non-US private sector companies and institutional investors to DFC product offerings and services, with a focus on investors that are committed to development impact.

DFIs, IFIs, Foundations, NGOs, and Chambers of Commerce, and Trade/Business Associations.

CDO will work with OSI and line departments to expand DFC's relationships with liked-minded partners. Strategic relationships with other DFIs and IFIs can help DFC build its pipeline, pursue co-financing opportunities, and take part in shared

due diligence and monitoring. Notably, DFC's equity authority will enable the Agency to participate in DFI- and IFI-backed equity funds that invest in LICs and LMICs. DFC could also consider opportunities to share staff or consultants in the field with these organizations to encourage greater collaboration. Furthermore, DFC will support more strategic inter-DFI coordination and collaboration. In addition to DFIs and IFIs, DFC will also foster relationships with global, regional and local foundations, NGOs, chambers of commerce, and trade or business associations that can connect DFC to networks of non-U.S. clients, provide critical feedback on operations and policy to improve development effectiveness, and open up markets that were not previously available to OPIC.

FINANCIAL INNOVATION

DFC's limited subsidy budget requires that the Agency explore innovative financing solutions to grow its portfolio in LICs and LMICs and invest in new technologies. DFC will collaborate with its interagency partners to design transaction structures and tools that help all parties advance their common development goals. At a minimum, these solutions will consist of scalable blended finance models and enhancements to DFC's local currency lending capabilities.

Blended Finance. DFC will work with other USG agencies and partners (e.g., foundations) to create and launch blended financing tools (e.g., USAID and Millennium Challenge Corporation (MCC) grants accompanying DFC financing) that allow it to take on greater risk and support more innovative projects. For example, DFC may develop an "Equity for Impact" tool that would promote small equity investments or a small loan program in strategic sectors in LICs and LMICs when de-risked with grant funding from USAID, MCC, or the U.S. African Development Foundation for technical assistance or first loss. DFC and MCC also are working together on the American Catalyst Facility for Development, which would establish a pool of funding of up to 15 percent of MCC's funding in a compact or threshold country (not to exceed \$50 million) to support joint investments. These types of blended finance transactions would make projects bankable in difficult markets more bankable

and potentially crowd-in other sources of financing that would not have otherwise considered investing. Blended finance presents DFC and its partner agencies with a significant opportunity to expand their reach in LICs and LMICs, optimize risk-sharing, and, ultimately, increase the USG's development impact.

DFC and MCC also are working together on the American Catalyst Facility for Development, which would establish a pool of funding of up to 15 percent of MCC's funding in a compact or threshold country (not to exceed \$50 million) to support joint investments.

Local Currency Tool. Given DFC's limited capacity and funding availability to support local currency lending as described in the constraints above, the Agency will continue to explore opportunities for collaboration with other USG agencies (e.g., USAID and MCC) to identify potential funding sources and tools to help the USG offer local currency lending to clients in developing countries.

MONITORING AND EVALUATION

The BUILD Act calls for modernizing OPIC's monitoring and evaluation (M&E) framework to appropriately measure the developmental performance of the new DFC's portfolio, including the replacement of OPIC's development impact measurement system, Impact Quotient (IQ). The system sets new standards and methods for ensuring accurate developmental performance of DFC's portfolio—including the measurement of projected and ex-post development impact of a project—and information necessary to comply with the annual reporting requirements.

By collecting better baseline data from the onset of project financing to a more robust annual data collection strategy, the monitoring and evaluation program allows DFC to strategically send staff to the projects that need it most.

Leverage Interagency Field Presence. In addition to DFC's new M&E approach, DFC will capitalize on the global presence of the USG through other agencies, namely the Department of State, USAID, MCC, the U.S. Commercial Service and USDA's Foreign Agriculture Service. This cooperation

will allow DFC access to local expertise and relationships with the host country, bolstering our ability to monitor and evaluate more projects and better inform our peers of the work the agency is conducting around the world.

New Tools and Platforms: DFC will leverage technology solutions to position itself to monitor more projects than ever before. By collecting better baseline data from the onset of project financing to a more robust annual data collection strategy, the monitoring and evaluation program allows DFC to strategically send staff to the projects that need it most.

Project Performance Evaluations. DFC will conduct project performance evaluations of selected projects for development impact with the aim to strengthen accountability and learning for evidence-based decision making that will improve development results.

Accountability. DFC, through its independent Office of Accountability, addresses concerns, complaints, or conflicts about environmental or social issues that may arise around DFC-supported projects. The office provides project-affected communities, project sponsors, and project workers an opportunity to have concerns independently reviewed and addressed. In providing its services, the office complements DFC's mission as a financial institution that promotes environmentally and socially-sustainable development.

CONCLUSION

DFC's investments in emerging markets are driving economic growth, creating stability, and improving livelihoods. DFC will operationalize the Roadmap for Impact by embedding its defined priorities within the Agency's internal systems and processes, collaborating with USG and external partners to achieve shared development goals, and seeking out the capabilities and resources required to maximize DFC's global development impact. DFC will continue to place particular emphasis on countries that are taking steps to promote free and fair markets,

the rule of law, transparency and individual rights. Furthermore, DFC will work with partners that advance sustainable job creation, financial systems strengthening, protect workers, women's economic empowerment, innovations across development finance, and resilient global supply chains. By doing so, DFC will expand the USG's leadership on the global development stage, offer sound alternatives to malign state-directed initiatives, advance US national security, and help put less developed countries on a path toward greater prosperity and self-reliance.

APPENDIX A: FRAGILE STATES APPROACH

Enhancing and expanding DFC's efforts in fragile states is essential to realizing its mandate of advancing economic development and U.S. foreign policy. Fragility fuels threats to U.S. national security, enables external exploitation and impedes economic growth globally. In 2019, the estimated economic impact of violence on the global economy was \$14.5 trillion, or 10.6 percent of global gross domestic productⁱ. While many countries have made remarkable progress eradicating extreme poverty in recent years, many fragile, conflict and violence-affected countries have regressed and are also impeding economic growth and fueling instability among their neighbors. As a result of COVID-19, global human development is likely to regress for the first time since the 1990s. The global public health crisis will generate subsequent economic, social and security-related shocks that will both expand and deepen fragility. More targeted, coordinated, and effective efforts to reduce fragility, prevent violence, and promote stability are needed to protect America's prosperity and security.

Fragility refers to the vulnerability of a country or region to armed conflict, large-scale violence, or instability, including an inability to manage transnational threats or other significant shocks.

The BUILD Act identified conflict-affected countries as a priority for DFC, and the Global Fragility Act of 2019 further stressed the importance of mobilizing private sector resources to tackle the immense challenges fragile states face in a sustainable manner. There is a growing consensus that the international community must shift from “funding to financing” when seeking to address increasingly intractable conflicts. However, the challenges to development finance in fragile states are significant, and a strategic, coordinated approach to DFC investments in these settings is essential to not only maximize positive impact, but also to mitigate risk and prevent unintended consequences. The Agency has identified core principles for DFC's work in fragile, conflict and violence-affected states as well as steps DFC will take to operationalize those principlesⁱⁱ.

Key Principles for DFC in Fragile States

Participate in a unified U.S. effort. DFC will participate in the Global Fragility Strategy development and implementation process and work closely with the interagency on a country and regional basis to ensure alignment with U.S. objectives, leverage interagency expertise, establish linkages with other U.S. efforts, and identify and address potential project risks or challenges. This will include working with relevant counterparts at Departments of Defense, State, and Treasury, USAID, and other agencies at the strategy development, project identification, due diligence, and implementation phases.

ⁱ Institute for Economics and Peace, Global Peace Index 2020: Measuring Peace in a Complex World, Sydney, June 2020, p. 42.

ⁱⁱ DFC will align with the priority countries identified as part of the Global Fragility Act process and will reference tools such as the World Bank's list of countries experiencing conflict and high fragility, the Fund for Peace's Fragile States Index, and similar tools to assess its investments in fragile states.

Focus on Prevention. The greatest potential for development finance comes through strategic investments before instability or violent conflict erupts. Prevention refers to deliberate efforts to interrupt the outbreak, escalation, or recurrence of armed conflict and violent crime. Prevention is not only the absence of violence, but also the presence of attitudes, structures and institutions that enable countries to absorb and recover from shocks and promote peace. DFC can contribute directly to this resilience by leveraging existing tools and approaches in ways that are creative, adaptive, equitable and entrepreneurial. DFC will closely monitor early warning mechanisms when identifying priority countries and will seek to support projects that create economic opportunity for marginalized communities and promote inclusion and peaceful cooperation among diverse stakeholders.

Identify Windows of Opportunity and Incentivize Reform. Concerted, sustained government action is needed to address the corruption and weak enabling environments that stunt private sector growth and perpetuate fragility. This includes making sustained investments to reduce underlying structural and institutional risks while adopting policies that improve the rule of law and ensure transparent and effective government licensing and regulatory mechanisms. Governments can be incentivized to and assisted in making these reforms, but they must have the political will. Absent that will, the impact of DFC investments will be limited and more likely to reinforce corrupt systems, and projects will face a higher risk of failure. DFC will seek to identify windows of opportunity when political leadership in fragile states demonstrate a commitment to reform and focus its investments in those places. DFC will structure its investments in a way that further incentivizes and builds a domestic constituency for reforms, including by connecting investments to ongoing U.S. and partner advocacy efforts and pursuing bilateral agreements that set conditions for expanding DFC investment in priority areas.

Support Comprehensive, Conflict Sensitive Efforts for Market Strengthening. The basic market conditions for private sector growth are often lacking in fragile, conflict and violence-affected countries. For development finance to be effective in these settings, DFC must avoid one-off projects and be prepared to support a package of projects that can help incentivize economic growth, improve economic infrastructure, promote government and business adherence to best practices, and build sustainable value chains. This involves supporting pioneer firms and fostering investments in a range of interdependent sectors, including those that serve as a country's economic backbone, such as power, telecommunications, and access to finance. Further, DFC will promote coordination between those investments to improve inter-project linkages and synergies. Where development finance is not an appropriate tool to address market gaps and strengthen critical economic infrastructure in a target market, DFC will coordinate with other agencies, donors and the local government to ensure those needs are being met through other mechanisms.

Take an Informed, Proactive Approach. Markets in fragile states are characterized by uncertainty. Before pursuing significant investment in fragile countries, DFC will seek to minimize uncertainty better assess potential projects. To do so, DFC will consult with interagency, private sector, and think tank partners to strengthen its understanding of market dynamics and trends, including identifying the areas of greatest need and opportunity. DFC will then proactively seek to identify and/or develop projects in those areas. This proactive approach is necessary not just to ensure strategic investments, it can also help mitigate the risk that DFC unintentionally reinforces negative patronage networks or exacerbates intergroup tensions. This could include issuing requests for proposals and other public commitments that can also serve as signals to the market to generate activity and confidence.

Leverage Partnerships. The investment needs in fragile settings are too great for DFC to manage independently, and the challenges will often be too significant for traditional finance approaches. Conflict-affected countries greatly benefit from robust donor coordination mechanisms; these should be strengthened and leveraged to promote coordination among DFIs and between DFIs and traditional donor organizations. Blended finance approaches will be critical to de-risk projects; expand the pool of bankable projects; and provide pioneering firms, small and women-owned businesses, and other private sector partners the tools and training they need to succeed. DFC will seek out co-investment with regional and other partners, recognizing that strategic partners can strengthen the project and build a broad base for future investment while ensuring a burden sharing approach.

Operationalizing DFC's Fragile States Approach

DFC will develop a tailored strategy for each fragile or conflict affected country in which it works, working within the structures for interagency coordination that will be established through the Global Fragility Act. However, there are key steps DFC will take to ensure the principles described above are effectively operationalized and upheld:

Prioritize work in fragile states. DFC aims to invest 60 percent of its projects in low income, lower-middle income, and fragile states. DFC will also integrate a consideration of fragility into its project review process, explicitly taking the GFA priority countries and regions into account. This review will include a consideration of whether projects in fragile states are consistent with the principles above.

Enhance interagency linkages. DFC will expand its interagency detail process to include candidates with experience in fragile contexts from a range of departments and agencies, including State Department, USAID, Treasury Department, and the

Department of Defense. DFC recognizes that the exchange of expertise and relationship building that such detail programs provide are particularly relevant when navigating the complex political and economic dynamics that characterize fragile states. Further, interagency details can help DFC leverage the deep country expertise that exists within the U.S. government.

Leverage existing tools. DFC's Portfolio for Impact and Innovation (PI2) can be used to support pioneer firms in fragile contexts who lack the track record or scale of traditional DFC partners. Additionally, DFC's Mission Transaction Unit (MTU) serves as a conduit to USAID missions and manages joint USAID-DFC projects. The MTU will play a critical role in implementing blended finance approaches and otherwise promoting collaboration with USAID efforts in fragile states.

Mainstream Conflict Sensitivity. No project in a conflict or violence-affected context can be neutral in terms of its own impact on conflict. Identifying and mitigating inadvertent local tensions and/or unintended operational, reputational or even legal costs that result from external engagement is a first step to ensuring DFC programming is conflict-sensitive. Beyond ensuring that we do no harm, DFC can also design and deliver investments in a way that creates opportunities for peace, such as building bridges, equalizing the playing field and creating opportunities for resilience.

Ensure Learning. DFIs are still learning how to most effectively leverage their tools in fragile and conflict affected states, and how to balance and manage the greater risk projects face in these settings. DFC will use its new Impact Quotient tool as well as other targeted assessments to better determine which types of projects are most effective in fragile states and integrate those lessons into its project prioritization process. DFC will seek opportunities to share its conclusions with relevant practitioner and think tank platforms to contribute to the knowledge base while also continually incorporating lessons from U.S. government and other partners into its own operations.

APPENDIX B: DEVELOPMENT FINANCE COORDINATION GROUP MEMBERS

DFC's DFCG is an interagency technical group that has the goal of helping DFC and other USG Departments and Agencies: (1) operationalize interagency tools designed to increase the quantity and quality of USG-backed development investments and (2) provide input and identify opportunities for collaboration on DFC's Development and Sectoral Strategies. Launched in June 2020, the DFCG consists of representatives from the following U.S. Government Departments and Agencies:

- Export-Import Bank of the United States
- Millennium Challenge Corporation
- U.S. Agency for International Development
- U.S. African Development Foundation
- U.S. Department of Agriculture
- U.S. Department of Commerce
- U.S. Department of Defense
- U.S. Department of Energy
- U.S. Department of Labor
- U.S. Department of State
- U.S. Department of Treasury
- U.S. Environmental Protection Agency
- U.S. International Development Finance Corporation
- U.S. Office of Management and Budget
- U.S. Trade and Development Agency
- U.S. Trade Representative

APPENDIX C: DEVELOPMENT ADVISORY COUNCIL MEMBERS

The Development Advisory Council was established by the Better Utilization of Investments Leading to Development Act of 2018. Members are appointed by DFC's Chief Executive Officer in consultation with the DFC's Chief Development Officer and with the approval of its Board. Members of the Development Advisory Council include:

- **Frederick Kempe:** Since 2006, Kempe has served as President and CEO of the Atlantic Council. Under his leadership, the Washington-based think tank has expanded its work through regional centers spanning the globe and provided thought leadership on topics ranging from global development and trade to energy and international security.
- **Bashar Masri:** As Founder and Chairman of the Board of Massar International, Masri spearheads investment in agriculture, technology, financial services, and other sectors that advance development across the Middle East and North Africa.
- **Robert Mosbacher, Jr.:** Mosbacher served as Chairman and CEO of the Overseas Private Investment Corporation, 2005 to 2009. He is Co-Chair of the Consensus for Development Reform and sits on the boards of the Center for Global Development and the Initiative for Global Development. He is also Chairman of Mosbacher Energy Company.
- **Michelle Nunn:** Nunn is President and CEO of CARE USA, a humanitarian organization that fights global poverty and provides lifesaving assistance in emergencies. She has led several ambitious initiatives and sharpened the organization's focus on collaboration with the private sector.
- **Damilola Ogunbiyi:** Ogunbiyi serves as CEO and Special Representative of the United Nations (UN) Secretary-General for Sustainable Energy for All and Co-Chair of UN-Energy. Prior to her appointment to these roles by UN Secretary-General António Guterres, she held various leadership positions in organizations focused on expanding energy access in Sub-Saharan Africa.
- **Edward R. Royce:** Royce served more than 25 years in the House of Representatives, including as Chairman of the House Foreign Affairs Committee from 2013 to 2019. In his current role as Policy Director at Brownstein Hyatt Farber Schreck, LLP, Royce advises international companies doing business domestically and guides multinational corporations looking to expand overseas.

- **Paul Weisenfeld:** As Executive Vice President for International Development at RTI International, Weisenfeld leads the design and implementation of programs aimed at solving global development challenges. He previously directed the Bureau for Food Security at the United States Agency for International Development (USAID) and served as USAID Mission Director in Peru and Zimbabwe.
- **Liz Schraye:** Schraye is President and CEO of the U.S. Global Leadership Coalition (USGLC), a broad-based coalition of over 500 businesses and NGOs that advocates for strong U.S. global leadership through development and diplomacy. In this role, she has grown the USGLC to a nationwide network of advocates in all 50 states.
- **The Honorable Ellen Johnson Sirleaf:** As President of Liberia from 2006 to 2018, Dr. Sirleaf is the first female head of state to be democratically elected in Africa. She has significant private and public banking experience and has worked to promote peace, reconciliation, and economic development in Liberia and across the continent. Dr. Sirleaf is also the recipient of the 2011 Nobel Peace Prize.

ENDNOTES

¹U.S. International Development Finance Corporation. 2020. "Environmental and Social Policy and Procedures." Washington D.C. https://www.dfc.gov/sites/default/files/media/documents/DFC_ESPP_012020.pdf

²According to the BUILD Act, a "less developed country" is a country with a low or lower middle-income economy.

³Evaluations are adjusted to account for potential negative environmental, social, or development risks.

⁴Jonathan Woetzel, Anu Madgavkar, Kweilin Ellingrud, Eric Labaye, Sandrine Devillard, Eric Kutcher, James Manyika, Richard Dobbs, and Mekala Krishnan. 2015. The Power of Parity: How Advancing Women's Equality Can Add \$12 Trillion to Global Growth. McKinsey Global Institute. <https://www.mckinsey.com/featured-insights/employment-and-growth/how-advancing-womens-equality-can-add-12-trillion-to-global-growth>

⁵Asli Demirgüç-Kunt, Leora Klapper, Dorothe Singer, Saniya Ansar, Jake Hess. 2017. The Global Findex Database 2017: Measuring Financial Inclusion and the Fintech Revolution. Report, Washington D.C.: World Bank Group.' <http://documents1.worldbank.org/curated/en/332881525873182837/pdf/126033-PUB-PUBLIC-pubdate-4-19-2018.pdf>

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⁸The ratio of labor force contribution to GDP growth has been steadily declining over the past few decades resulting in unbalanced share of benefits derived from economic growth. https://unctad.org/en/PublicationChapters/tdr2019ch3_en.pdf

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¹²International Energy Agency. 2019. SDG7: Data and Projections. November. Accessed September 2020.

¹³USAID; Tony Blair Institute for Global Change; Power Africa. West Africa Power Trade Outlook. <https://www.usaid.gov/sites/default/files/documents/1860/wapt.pdf>

¹⁴Asli Demirgüç-Kunt, Leora Klapper, Dorothe Singer, Saniya Ansar, Jake Hess. 2017. The Global Findex Database 2017: Measuring Financial Inclusion and the Fintech Revolution. Report, Washington D.C.: World Bank Group. <https://openknowledge.worldbank.org/handle/10986/29510>

¹⁵Bellens, Jan. 2018. How banks can play a stronger role in accelerating financial inclusion. April 25. Accessed September 2020. https://www.ey.com/en_us/trust/can-inclusive-banking-drive-economic-growth-in-emerging-markets

¹⁶USAID. "Primer on Catalyzing Agricultural Finance." 2019. Agrilinks. September 2020. https://www.agrilinks.org/sites/default/files/resources/190829_usaid_ag_finance_primer_vfinal.pdf

¹⁷World Bank: Future of Food: Harnessing Digital Technologies to Improve Food System Outcomes. <https://www.worldbank.org/en/topic/agriculture/publication/future-of-food-harnessing-digital-technologies-to-improve-food-system-outcomes>

¹⁸USAID. 2016. U.S. Government Global Food Security Strategy . Strategy, Washington D.C <https://www.usaid.gov/sites/default/files/documents/1867/USG-Global-Food-Security-Strategy-2016.pdf>

¹⁹U.S. Government. 2020. Feed the Future Initiative <https://www.feedthefuture.gov/about/>

²⁰World Health Organization. 2019. Primary health care on the road to universal health coverage: 2019 monitoring report: executive summary. Geneva. (WHO/HIS/HGF/19.1). <https://www.who.int/docs/default-source/documents/2019-uhc-report-executive->

²¹Lack of access to antibiotics is a major global health challenge Date: April 9, 2019 Source: Center for Disease Dynamics, Economics & Policy, <https://www.sciencedaily.com/releases/2019/04/190409135849.htm>

²²How Businesses Can Crack Health Care's Last Mile Problem; Adam Lashinsky; Fortune <https://fortune.com/2016/12/02/last-mile-health-raj-panjabi-business/>

²³Genomic Medicine in Developing and Emerging Economies: State-of-the-Art and Future Trends; CatalinaLopez-Correa*George P.Patrinios <https://www.sciencedirect.com/book/9780128115312/genomic-medicine-in-emerging-economies>

²⁴DFC's Global Health & Prosperity Initiative aims to invest \$2 billion and catalyze \$5 billion of investment in healthcare, WASH, and food security by 2023. The metrics for these three development sectors are broken down separately in the Development Strategy with the investment targets being for 2025, not 2023.

²⁵Individuals who do not have safely managed water services include: people with basic services, or an improved water source requiring less than 30 minutes to collect water; people with limited services, or an improved water source requiring more than 30 minutes to collect water; people taking water from unprotected wells and springs; and people collecting untreated surface water from lakes, ponds, rivers and streams. (WHO; <https://www.who.int/en/news-room/fact-sheets/detail/drinking-water>)

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